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REPORT OF THE PROVINCIAL AUDITOR

**YEAR ENDED
MARCH 31, 1991**

**TO THE LEGISLATIVE ASSEMBLY
OF SASKATCHEWAN**



Provincial Auditor Saskatchewan

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March 17, 1992

The Honourable H. H. Rolfes
Speaker of the Legislative Assembly
of Saskatchewan

I have the honour to submit my Annual Report for the fiscal year ended March 31, 1991, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of The Provincial Auditor Act.

Respectfully Submitted,

W.K. Strelloff

W. K. Strelloff, C.A.
Provincial Auditor

/lk

Our Mission

We serve the public through the Legislative Assembly.

**We independently examine and report on the
management of the public resources
entrusted to the government.**

**We encourage accountability and effective
management in government operations.**

Foreword

I am pleased to present my second Annual Report to the Legislative Assembly. My Report summarizes the results of the work done by my Office during the past year and comments on matters we think should be brought to the attention of Members of the Legislative Assembly.

The matters we comment on usually relate to problems. In the past, our Office has found that Members of the Legislative Assembly are particularly interested in matters requiring correction. As a result, we do not usually comment on our positive findings. Those positive findings constitute by far the typical situation we find when carrying out our work.

I wish to thank the staff and officials of departments and other government organizations audited by my Office for their cooperation and assistance. Also, I acknowledge the dedicated efforts of the staff of my Office. Their contribution is essential for achieving our responsibilities.

W.K. Strelieff

Regina, Saskatchewan
February 28, 1992

W. K. Strelieff, C.A.
Provincial Auditor

Report of the Provincial Auditor

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Chapter 1

Observations

Strengthening Public Accountability

.01 Saskatchewan people and their elected representatives know our Government faces difficult decisions concerning taxes and programs. They also believe they should have ample opportunity to understand, assess and debate Government plans and actions. Our system of public accountability must provide that opportunity. However, there is general concern our existing accountability system is not adequate. I share that concern.

.02 Our existing accountability system was developed at a time when the Government operated primarily through departments and allocated resources through one Consolidated Fund. This is no longer the case. Our Government now uses many corporate forms of organizations to carry out policies and deliver services, e.g., Crown Investments Corporation of Saskatchewan, Saskatchewan Economic Development Corporation, Saskatchewan Power Corporation and Saskatchewan Property Management Corporation.

.03 Unlike departments, most Government corporations are not required to present spending proposals to the Legislative Assembly for approval or to rely on the Consolidated Fund for resources. In addition, such corporations do not report to the Assembly the same detail of information as departments. As a result, the public and their elected representatives do not have an adequate opportunity to understand, assess and debate revenue-raising and spending proposals and the financial results of Government, as a whole.

.04 Public accountability needs strengthening. In my view, a first important step is for our Government to plan, manage and account for its operations as a whole. Currently, there is a tendency to view what the Government does in separate components. Government departments, for example, are often viewed differently than Government corporations, which are in turn viewed differently than Government health and education institutions. As a result, resource allocation choices and decisions are difficult to identify, understand, assess and coordinate.

A Financial Plan for Government as a Whole is Needed

.05 The Government's financial plan, i.e., the Estimates, proposed each year to the Assembly deals with only a portion of the financial activities planned by the Government. The financial activities of the many corporate forms of Government organizations are excluded. As a result, programs and services carried out through government corporations do not receive the same scrutiny as do programs carried out through government departments. Accordingly, there is unequal competition for public money and unequal accountability for results.

.06 In our opinion, the Government should present to the Assembly, for approval, an annual financial plan showing the

Chapter 1 Observations

proposed revenue-raising and spending programs of all Government organizations. Only then can legislators and the public fully understand and assess what the Government plans to do.

.07 The Government should also present to the Legislative Assembly, for scrutiny, a three year plan. The plan would include key economic assumptions and would provide legislators and the public with a better understanding of what general long-term direction the Government plans to take and how longer-term issues are to be addressed. When key assumptions change, an explanation would be provided.

Financial Reports
should account for
the Financial Results
of Government as a
Whole

.08 Currently, the Government's annual financial statements and public accounts report only a portion of the financial activities of Government (see Chapter 19). The financial results of many Government corporations are excluded. Legislators and the public must assemble on their own the many individual reports issued by Government organizations in order to understand, assess and debate what took place during the year. That task is nearly impossible.

.09 In our opinion, the Government should prepare an annual financial statement reporting on all Government organizations. The statement should be prepared using the accounting recommendations set independently by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants. The statements should be prepared, audited and issued publicly as soon as possible after the year end. The statements should be included in an understandable and concise report.

.10 The Government should also prepare a complete and integrated set of public accounts and issue them publicly as soon as possible after the year end. Three volumes are needed. The first volume should be the annual financial statement discussed above. The second volume should include the separate financial statements of all Government organizations (the Government has begun to do this). The third should present details of transactions as required by legislators. The details should be presented for the Government, as a whole, and for each Government organization. Readers of the public accounts should be able to go from the summary to the detail and from the detail to the summary without difficulty.

Annual Reports for
each Government
Organization should
be Presented to the
Legislative Assembly

.11 The information in the annual reports of most Government organizations (i.e., departments and corporations) varies significantly. In general, the reports do not help legislators and the public understand, assess and debate what was planned and what actually took place. In addition, some reports are not provided to the Assembly or are issued long after the year end.

.12 In our opinion, the Government should prepare annual reports for each Government organization. The reports should be made public as soon as possible after the year end of each organization. Once public, they should be referred, for scrutiny, to the appropriate standing committee of the Assembly.

.13 The reports would include, as a minimum, financial statements and explanations of planned and actual results. Over time, the reports could also address the organization's effectiveness using the twelve attributes of effectiveness recommended by the Canadian Comprehensive Auditing Foundation. Our Office is now examining what annual report information would be useful to legislators and to the public in assessing the performance of Government organizations. Our examination is reviewed in Chapter 7 which also explains the twelve attributes of effectiveness.

.14 In addition, each year, the Government should present to the Legislative Assembly, the nature and extent of each investment in mixed corporations, the financial statements of each corporation, the objective of making and keeping the investment, and the extent to which the objective was achieved. Mixed corporations are those in which the Government holds less than 50% of the voting shares. Examples include NewGrade Energy Inc. and Saferco Products Ltd.

Government Financial Activities should be Managed as a Whole

.15 Treasury Board, a committee of cabinet, is responsible for managing the financial activities of Government. The Department of Finance provides staff support. Recently, Treasury Board has focused its attention primarily on department activities. The financial activities of Government corporations are managed in a less clear manner. Some report to Treasury Board through the Department of Finance, some report to the Crown Investments Corporation of Saskatchewan (CIC), and others do not report through the Department of Finance or the CIC. As a result, the task of managing financial activities of Government as a whole must be difficult.

.16 In my view, Treasury Board should coordinate and direct the financial activities of all Government organizations. Only then can the Government address resource allocation issues in the context of all competing demands.

.17 In advocating a stronger central coordination of government, I am not suggesting all decision making be centralized. Such centralization has long proven to be an ineffective way of delivering programs and services or of encouraging program managers to provide good service to the public. What I am suggesting is that the government needs to plan, coordinate and report on its activities as a whole. Only then can clear direction be provided to program managers. Only then can all government organizations move in the same direction.

Chapter 1 Observations

And, only then can Members of the Legislative Assembly and the public fully understand and assess the Government's resource allocation priorities, decisions and results.

The Existing Audit System Needs Change

.18 The main job of the Office of the Provincial Auditor is to help Members of the Legislative Assembly and the public hold the Government accountable for administering public money.

.19 For the last few years, my Office has reported difficulties in doing its job when the Government appoints its own private sector auditors. Many such appointments have been made when the Government chooses to administer public money through a corporate form of government organization.

.20 When private sector auditors are appointed, it has been particularly difficult and confrontational for my Office to examine and resolve issues directly. Months and sometimes years go by before my Office is able to examine an issue and, if necessary, report our findings to the Assembly. In addition, my Office is not obtaining sufficient first-hand knowledge of the activities of many government organizations. As a result, I cannot assure the Assembly that all significant issues are brought to their attention.

.21 In Chapter 2, Appointed Auditors, I conclude the existing audit system needs change. I recommend that, when it is the public policy decision to hire private sector auditors, they work as agents of my Office.

.22 I hold the view Members of the Legislative Assembly and the public expect their Provincial Auditor to have immediate and direct access to all government organizations. They expect my Office to be truly able to effectively help them hold the Government accountable for administering public money.

The Financial Management Review Commission

.23 The February 1992 report of The Financial Management Review Commission also emphasizes the importance of strengthening the public accountability of government. The report focuses on two key problems. The first relates to the annual financial statements of government. As does our Office, the Commission calls for a full accounting using the accounting principles and reporting standards established by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

.24 The second problem relates to the way our government manages public money through government corporations. The Commission is concerned about the ability or inability of the Legislative Assembly and the public to participate in decision making and to hold the government accountable. Many of the Commission's recommendations focus on strengthening the accountability of government corporations.

Chapter 1 Observations

.25 My Office shares the Commission's concerns. In this and previous reports we have continually emphasized the need to strengthen the accountability of government corporations. In Chapter 4, my Office again calls for essential information to be provided by government corporations to the Assembly. Chapter 4 also reports that several government corporations within the influence of the Crown Investments Corporation (CIC) do not even provide financial statements to the Assembly. Chapter 12 notes that CIC itself does not provide a proper accounting of the assets entrusted to it by the Assembly. Chapter 32 on Saskatchewan Power Corporation reports that one of the biggest government corporations prepares inappropriate financial statements that overstate its earnings. In addition, SaskEnergy does not even provide financial statements to the Assembly to account for the natural gas monopoly it manages. And, Chapter 35 on Saskatchewan Transportation Company illustrates what can go wrong when management and the board of directors do not carry out their responsibilities properly.

.26 My Office plans to monitor how each of the recommendations of the Commission are addressed. Our findings will be set out in future reports to the Assembly.

.27 My experience as special advisor to the Commission serves to reinforce my belief that a strong system of public accountability promotes good decision making.



Chapter 2

Appointed Auditors

The Existing Auditing System Needs Change

.01 When appointed Provincial Auditor, one of the most difficult issues I faced was how my Office can best do its job for the Legislative Assembly when the Government appoints its own private sector auditors. In my first Annual Report in 1990, I said I would examine this issue and report my findings and recommendations in this year's Report.

.02 As the auditor of all public money, my Office reports to the Assembly our findings and views on how public money is administered in all government organizations. My objective is to ensure we can effectively help Members of the Legislative Assembly hold the Government accountable for administering public money.

.03 I have concluded that significant change is required. In February, I recommended to the Minister of Finance that *The Provincial Auditor Act* be revised. I recommended that when it is the public policy decision to hire private sector auditors, they work as agents of my Office. I asked the Minister to bring forward this proposed change to the Act in the next session.

The Existing Auditing System does not Effectively Serve the Legislative Assembly

.04 In 1987, *The Provincial Auditor Act* was revised by the Government without obtaining the advice of my Office. The major revision permitted my Office to rely on the report of an appointed auditor. If we are unable to rely on the report of an appointed auditor, we are required to state so publicly. Since that date, the Government has appointed private sector auditors to audit many government organizations.

.05 In 1988, my Office reported that over 50% of public money was audited by private sector auditors. As a result, my Office has had to do much of its work through private sector auditors. This auditing system has been particularly difficult and confrontational when my Office needs to examine and resolve complex issues directly.

.06 The first difficulty is that my Office must work through a time-consuming and confrontational system. As a result, our reports to the Assembly are often very late.

.07 Under the existing system, my Office must wait until we receive the reports and working papers of an appointed auditor. We must examine those reports and working papers. When we need to examine or resolve an issue directly, we must be prepared to state publicly that we are unable to rely on the reports of the appointed auditor. As a result, months and sometimes years go by before we are able to examine a particular issue and, if necessary, report our findings to the Assembly.

Chapter 2 Appointed Auditors

.08 The second difficulty is that my Office is not obtaining sufficient, first-hand knowledge of the activities of many government organizations. As a result, we cannot assure the Assembly that all significant issues are brought to their attention.

.09 In addition, Members of the Legislative Assembly do not have our views on the activities of many government organizations and on the reports of appointed auditors in a timely manner. As a result, Members may be making assessments based on inappropriate information.

.10 For several years, my Office has reported significant difficulties with the existing auditing system. All of the difficulties impair our ability to serve the Assembly in a timely and effective manner. As a result, public accountability has not been well served.

.11 The existing system needs change so that my Office can more effectively help Members of the Legislative Assembly hold the Government accountable for administering public money.

Examples of Problems with the Existing Auditing System

.12 The following are examples of problems with the existing auditing system contained in this Report.

.13 Chapter 35 relates to the Saskatchewan Transportation Company. Only now are we able to report to the Assembly on activities that took place two to three years in the past. Public accountability is not well served and financial management problems continue.

.14 Chapter 34 on Saskatchewan Telecommunications is another example. In February, 1992, we determined we could not rely on the appointed auditor's report on the financial statements of SaskTel for the year ending 1990. There was insufficient evidence for us to form an opinion on the recorded value of a significant investment. Again, public accountability and decision making is impaired.

.15 Chapter 12 on the Crown Investments Corporation of Saskatchewan (CIC) is a further example. For several years, we have reported that we cannot rely on the appointed auditor's report on CIC's financial statements. In our view, CIC does not provide the Assembly with an appropriate accounting of the assets entrusted to it by the Assembly. What is provided is an aggregation of many government corporations. As a result, the Assembly and the public are unable to determine or scrutinize what the Government does with the significant public money administered through CIC. The appointed auditor holds the view the existing financial statements are appropriate. Unfortunately, an important accountability issue has been mistakenly viewed, by many, as a technical difference of opinion among auditors. Public accountability has not been well served.

Chapter 2 Appointed Auditors

.16 Also in our Chapter on CIC, we report that subsidiaries of CIC, e.g., the Saskatchewan Diversification Corporation, made several expenditure, loan and investment transactions without proper legislative authority. The transactions took place in 1990 and earlier. Public accountability was not well served.

.17 My work as special advisor to The Financial Management Review Commission (see Chapter 3) provided the final warning to me that my Office needs to examine more directly all government organizations.

.18 A main focus of the Commission's report is the need to strengthen the ability of legislators and the public to scrutinize the plans and activities of government corporations. My Office does not directly examine those corporations. The Commission also recommends that legislative changes are needed to ensure my Office can meet our responsibilities to the Assembly when private sector auditors are appointed.

Three Alternative Auditing Systems

.19 During the past year, I have given much thought to what changes are needed. I met with many groups and individuals, I distributed a discussion paper and I received valuable advice. In addition, I have had many discussions with legislative auditors in other jurisdictions and with my staff.

.20 I have concluded the existing system is inadequate. I cannot effectively meet my responsibilities to the Assembly within the existing system. Change is required.

.21 My recommendation to the Minister of Finance sets out three alternatives.

- The first alternative is to continue the existing system. I recommend against this alternative because it does not result in adequate accountability to the Assembly. It is also the most expensive to the taxpayer at \$6 million because of the required duplication of work.
- The second alternative is to have our Office audit all government organizations without involving private sector auditors. This alternative is the least expensive to the taxpayer at \$5 million and, I believe, offers the Legislative Assembly and the Government the strongest system of accountability.
- The third alternative is for private sector auditors to be agents of the Provincial Auditor. If it is the public policy decision to continue the existing extent of private sector auditor work, this system would cost the taxpayer \$5.7 million.

An Agency System

.22 The Minister of Finance has advised me the Government wishes to have an audit system in which private sector auditors participate. Accordingly, the Government must consider the additional cost of the private sector perspective worthwhile.

.23 Accordingly, if appointed auditors are to be used the third alternative, an agency system, is best for two key reasons.

- The first reason is the Assembly will have a good system of accountability with an agency system. Private sector auditors will work for my Office rather than for the Government.
- Accordingly, my Office can help private sector auditors deal with difficult issues and my Office will have timely access to all government organizations when required. Difficult issues and problems can then be examined, resolved and, if necessary, reported to the Assembly in a more timely and effective manner.
- The second reason is private sector auditors can provide the Government and my Office with a valuable perspective.

.24 My proposed agency system is based on one in place in Alberta. The proposed system has the following key elements.

- Each year, the extent of work carried out by private sector auditors will be determined in consultation with a standing committee of the Legislative Assembly called the Board of Internal Economy. This Committee currently considers the budget of my Office.
- Private sector auditors will be hired through a tendering process and will be rotated every few years thereby ensuring opportunities to broaden public sector expertise and to contribute more effectively.
- Government corporation directors will be consulted before my Office hires a private sector auditor.
- Private sector auditors will be consulted to determine what general tendering criteria are appropriate. Criteria will relate to cost, expertise and the views of Government corporation directors. Conflict of interest guidelines will be developed.

.25 Under the three alternatives, the Government could continue to employ private sector auditors in a consulting capacity.

Chapter 2 Appointed Auditors

A Special Report
will be Provided

.26 At the date of this report, I do not know what changes to *The Provincial Auditor Act* the Government intends to introduce. However, I have been advised changes are planned to strengthen the ability of my Office to examine Government corporations directly. Accordingly, I will prepare a special report to the Assembly when the Government introduces the changes to the Act so the Assembly can understand and assess the views of my Office.



Chapter 3

The Financial Management Review Commission

Purpose

.01 In November, 1991, the Government created The Financial Management Review Commission. The Commission was asked to review the financial position of the Province, provide an overview of significant transactions and commitments entered into by the Government during the past several years, and offer advice on how to improve financial management and public accountability. In addition, the Commission was to recommend the accounting principles that should be used by the Government for the year ending March 31, 1992 and to use those same principles to report the financial position as at October 31, 1991.

Special Advisor

.02 At the same time, the Government asked me, as Provincial Auditor, to serve as special advisor to the Commission and to provide my opinion on the accounting principles recommended by the Commission.

.03 The related Orders-in-Council are in Appendix IV.

.04 *The Provincial Auditor Act* allows me to accept such assignments if I am provided the necessary funding and if the assignment will not unduly interfere with my other duties.

.05 I accepted the assignment for several reasons. First, the role of my Office is to encourage accountability and effective management in government operations. I viewed the Commission as an opportunity to help move forward accountability and financial management practices.

.06 Second, the Commission was asked to recommend the accounting principles that should be used by the Government and to use those same accounting principles to report on the financial position of the Government as at October 31, 1991. I considered it important that Members of the Legislative Assembly and the public know if my Office considers the accounting principles recommended and used by the Commission appropriate.

.07 Third, I held the view the Commission would benefit from our advice on how to improve financial management and public accountability.

.08 As special advisor, I attended Commission meetings, participated in discussions and, when asked, provided various types of analyses. My Office helped the Commission decide on the accounting principles recommended for presenting the financial position and results of operations of the Government for the year ending March 31, 1992. We advised on whether the accounting principles used in the preparation of the March 31 and October 31, 1991 financial statements are appropriate and whether the methods used by the Department of Finance to compile those

statements are reasonable. However, due to time and budget constraints, we were not asked to audit, review, compile or otherwise attempt to verify those financial statements.

The Commission's
Recommendations
are Important

.09 The Commission's report contains forty-two recommendations on how to strengthen government financial management and public accountability. The Recommendations are important. They deal with issues our Office has emphasized for many years.

.10 The Commission's report reinforces our belief that a strong system of public accountability fosters sound management. As the Commission states:

By keeping the public and their elected representatives better informed and by allowing them to debate the merits and potential pitfalls of various courses of action, better decisions will be made.

The Commission's
Recommended
Accounting Principles
are Appropriate

.11 As stated, the Government asked for my opinion on the accounting principles recommended by the Commission. The Commission recommends:

the Government of Saskatchewan should, through legislation, adopt the accounting principles and reporting standards which are established, and specified, from time to time, by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.

I endorse this recommendation and, in a special report to the Lieutenant Governor in Council, state:

In my opinion, the accounting principles and reporting standards recommended by The Financial Management Review Commission are appropriate.

(The full text of my special report is in Appendix IV).

.12 I also strongly agree with the Commission that legislation should be enacted requiring future governments to adhere to the accounting standards set independently by PSAAC of the Canadian Institute of Chartered Accountants. Amendments to *The Financial Administration Act* are needed. The existing requirements in that Act are vague. As a result, the current financial statements are deficient and, as the Commission states:

jeopardize the effectiveness of the decision-making processes and public accountability of the affairs of the Government of Saskatchewan and its Crown

corporations, boards, commissions, and other agencies.

.13 In my auditor's report on the Government's 1990-91 financial statements, I state:

In my opinion, because the accounting principles used to prepare these financial statements are inappropriate, these combined financial statements do not present fairly the financial position of the Government of the Province of Saskatchewan as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended.

.14 Accordingly, the Commission's concerns and mine are the same. My views on those statements and the accounting practices of the Government are explained in Chapter 19.

The Commission's
Report has Three
Key Themes

.15 I see three key themes in the report of the Commission.

- Financial reporting practices need change
- Crown corporation accountability needs strengthening
- Specific objectives, expected costs and a management plan should be set out clearly for each significant transaction and commitment

Each of these themes serves to strengthen the ability of legislators and the public to scrutinize the financial plans and activities of the Government and thus hold the Government accountable for administration of public money.

Financial Reporting
Practices Need
Change

.16 As stated above, the Commission and our Office recommend adopting the accounting principles and reporting standards established by PSAAC. The Commission used those principles and standards to restate the March 31, 1991 financial statements of the Government. As a result, the accumulated deficit is restated at \$7.5 billion rather than the \$3.6 billion deficit previously reported.

.17 In our opinion, although the restated amount has not been audited, it is a more accurate measure of the Government's accumulated deficit (the difference between its liabilities and its financial assets). The restated amounts are intended to include all liabilities and all financial assets of the Government.

.18 The Commission and our Office believe the accounting principles and reporting standards recommended by PSAAC also need to be used to present the March 31, 1992 financial results

and the results for years thereafter. In addition, as the Commission notes, the changes in the accounting principles should also be adopted in the budget so comparisons of budget and actual results are meaningful.

.19 When these changes are implemented, legislators and the public will finally be provided the information needed to better understand and assess the state of our Government's finances and the difficult decisions our Government faces. Do tax rates need to be changed? Can we afford new or our existing programs? How do we maintain our infrastructure of roads, schools and hospitals so critical to our future?

Crown Corporation
Accountability Needs
Strengthening

.20 Our Office believes the Commission's concerns about the accountability of crown corporations requires considerable attention. For several years, we have stressed the need to strengthen the ability of legislators to hold crown corporations accountable (see Chapter 4). The Commission recommends:

- Decisions to create crown corporations should be properly reported to and debated by the Assembly
- A mandate for each crown corporation should be prepared and provided to the Assembly, setting out the corporation's purpose and accountabilities
- Crown corporations should have the same public reporting requirements as do government departments unless otherwise stated in the mandate of the corporation
- Financial statements for each and every subsidiary within the purview of the Crown Management Board (Crown Investments Corporation of Saskatchewan) should be provided to the Assembly on a timely basis
- All dividends from crown corporations, joint ventures and other Government corporations should be paid directly to the Consolidated Fund not to the Crown Management Board

.21 Each of these recommendations, if implemented, would strengthen the ability of the Assembly to hold the Government accountable for the activities carried out through crown corporations.

Specific Objectives,
Expected Costs and a
Management Plan
are Needed

.22 The Commission recommends specific objectives, expected costs and a management plan should be clearly set out for each significant transaction and commitment. This Recommendation is valuable.

.23 In my view, legislators and the public now find it difficult to determine whether a transaction or commitment proposed or entered into by a Government is worthwhile. One of the key reasons is specific objectives or expected costs are seldom set out by the Government. As a result, legislators, the public and the Government itself are often unable to discuss clearly whether a particular transaction or commitment is worthwhile.

.24 When the Commission examined specific transactions and commitments, they also could not find, in most cases, the Government's specific objectives, expected costs and a management plan.

.25 Our Office plans to seek ways of encouraging the Government to provide a better statement of expectations prior to entering into specific transactions or commitments. In the future, for significant transactions or commitments, we will ask questions such as:

- What are the Government's objectives when the decision to enter into a transaction or a commitment is undertaken? For example, the objective could be to increase employment.
- What criteria are to be used to determine whether those objectives are being achieved? If increased employment is the objective, the criteria could set out how many jobs, in what categories, in which locations, at what rates of pay and how long the jobs are expected to last.
- What is the expected effect on expenditures and revenues? If increased employment is the objective, we should find solid analyses of expected costs during a specified time period.
- What was the performance to date? If the objectives, criteria and financial expectations are clearly set out, performance can then be assessed.

.26 We believe these questions should be addressed by the Government prior to entering into a transaction or commitment. If they are, legislators, the public and the Government will be better able to assess the relative merits of alternatives. Government officials will be better able to provide ongoing management. And, everyone will be better able to assess subsequent performance and whether changes are required.

.27 The forty-two Recommendations of the Commission are in Appendix IV. Our Office plans to monitor how each of the Recommendations are addressed. We will set out our findings in future reports to the Legislative Assembly.



Chapter 4

Corporation Accountability

Tabling of Financial Statements

.01 The Government administers a substantial amount of public money through corporate entities.

.02 These corporations are created under:

- a special Act of the Legislature, e.g., Saskatchewan Power Corporation, Saskatchewan Telecommunications.
- an Order-in-Council under *The Crown Corporations Act, 1978*, e.g., Saskatchewan Forest Products Corporation, Souris Basin Development Authority.
- a *Business Corporations Act*.

.03 Examples of corporations created under a *Business Corporations Act* fall into three categories:

- the crown owns 100% of the issued share capital of the corporation, e.g., Saskatchewan Diversification Company, SaskEnergy.
- the crown owns 51 - 99% of the issued share capital, e.g., CAMECO.
- the crown owns less than 51% of the issued share capital, e.g., Newgrade Energy Inc., SaskOil (voting interest).

.04 Corporations created under a special Act of the Legislature and by an Order-in-Council under *The Crown Corporations Act, 1978* must table an annual report in the Assembly.

.05 The law does not require corporations created under a *Business Corporations Act*, that are partially or wholly owned by the Crown, to table an annual report in the Assembly.

.06 The Standing Committee on Public Accounts discussed this matter as it pertained to corporations whose shares are 100% owned by the Crown. In its report of November 3, 1987 the Committee said:

That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown Agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced.

Chapter 4 Corporation Accountability

.07 At the date of this report, legislation has not been enacted.

.08 In 1990, The Standing Committee on Public Accounts discussed the accountability to the Legislative Assembly of corporations created under a *Business Corporations Act* where the Crown owns less than 100% of the issued share capital. The Committee has not yet made a recommendation regarding these corporations.

.09 We continue to recommend all Government corporations table annual audited financial statements in the Assembly.

.10 We note The Financial Management Review Commission also recommends that the Assembly should receive the audited financial statements of all Government corporations including subsidiary corporations.

Equal Accountability

.11 In our previous annual reports, we state crown corporations do not provide the Assembly with sufficient information to allow a detailed investigation of government spending.

.12 For example, when a government department spends public money, the Assembly receives a list of persons who received money. This information allows the Assembly, and the public, to question payments.

.13 Crown corporations do not provide the Assembly with a list of persons who received money. As a result, there is not full accountability.

.14 The government announced last year it would increase disclosure requirements for government organizations funded primarily by tax dollars so they are truly accountable.

.15 This would be an important step towards equal accountability for all government organizations. However, this step does not include Crown corporations such as Saskatchewan Power Corporation and Saskatchewan Telecommunications. In our opinion, the increased disclosure requirements should apply to all government organizations. They should be equally accountable to the Assembly. We note The Financial Management Review Commission also emphasizes the importance of all government corporations publicly reporting the same as government departments.

Compendium of Financial Statements

.16 In 1991, the Department of Finance presented financial statements for all government organizations in the Public Accounts except corporations subject to Part II of *The Crown Corporations Act, 1978* and corporations created under a business corporations act. This is an improvement in public accountability.

Chapter 4 Corporation Accountability

Information Needed to Question Payments

.17 However, we continue to recommend the Public Accounts include the financial statements for all Government corporations. This would ensure the Public Accounts are complete and the Public Accounts Committee has all financial statements referred to it for study.

.18 As we report in paragraph .14, the Government stated it would increase disclosure requirements for government organizations funded primarily by tax dollars. Accordingly, we expected the Public Accounts would show a list of persons who received money from each government organization.

.19 The Department of Finance did not include this information in the Public Accounts.

.20 In December 1991, the Saskatchewan Property Management Corporation (SPMC) tabled its 1991 annual report with the Assembly. SPMC attached a list of persons who received money from SPMC to the report. This is an improvement in public accountability.

.21 However, we think the Department of Finance should include in the Public Accounts SPMC's list of persons who received money. This would help to ensure the Public Accounts are complete and the Public Accounts Committee has the information referred to it for study.

.22 Also, it appears SPMC was the only crown corporation that provided this required information to the Assembly.

.23 We continue to recommend all government organizations provide a list of persons who received money to the Department of Finance for inclusion in the Public Accounts.

Crown Corporation Dividends

.24 Some years ago, we reported to the Assembly on the practice of Crown Investments Corporation of Saskatchewan (CIC) receiving dividends from other crown corporations.

.25 Our concern is crown corporations can transfer dividend money to CIC and CIC can spend the money without specific approval or scrutiny by the Legislative Assembly. A significant amount of public money is involved.

.26 We recently received a report about crown corporation dividends. The report states CIC received \$2.3 Billion in dividends from other crown corporations over the last ten years.

.27 In the last three years alone, CIC received \$1.8 Billion in dividends. But, in the last three years CIC has only paid \$585 Million into the Heritage Fund. This means CIC has had \$1.2 Billion to spend without the scrutiny of the Assembly. CIC used

this money to finance its operations.

.28 We note The Financial Management Review Commission recommends all dividends declared by Government corporations and joint ventures be paid directly to the Consolidated Fund. We also believe crown corporation dividends should be paid directly to the Consolidated or Heritage Fund. If CIC requires money to finance its operations, it should request money from the Assembly. This process would improve public accountability because the Assembly would have the opportunity to assess CIC's spending.

.29 In addition to the foregoing, CIC spent some of this money on purposes not authorized by the Assembly and CIC has not prepared proper financial statements. Our chapter on CIC reports more fully on these matters.

Chapter 5

Accountability Process

Rule of Law

.01 Our system of government is modelled after the British Parliamentary System and is based on the principle of the rule of law.

.02 The Legislative Assembly of Saskatchewan has the most important position in this system because it makes the laws that govern us.

.03 The Executive Government is subordinate to the Assembly because it operates under and is constrained by laws passed by the Assembly.

.04 A basic principle of our system of government is that the Government shall not collect money, spend money or incur debt without the permission of the Assembly.

Accountability of the Executive Government

.05 The Government is accountable for its use of power both through the courts and directly to the Assembly. Accountability means to give reasons for and explanations of one's actions.

.06 The Government fulfils part of its accountability to the Assembly when the Government presents financial information contained in the Public Accounts, presents annual reports of crown agencies and provides other information.

.07 The extent of the Government's accountability to the Assembly depends upon the usefulness of the information given to the Assembly.

Independent Legislative Auditor

.08 Another important aspect of the Government's accountability to the Assembly is the existence of an independent legislative auditor, the Provincial Auditor.

.09 The Provincial Auditor is an Officer of the Assembly responsible to audit all the accounts of the Government. We report to the Assembly on the Government's stewardship reports (financial information) and on the Government's administration of public money.

.10 *The Provincial Auditor Act* makes us independent from the Government except for our funding.

.11 In February 1991, at the request of the then Minister of Finance, the Board of Internal Economy reviewed and approved the Provincial Auditor's spending estimates for 1991-92. The Board is a Standing Committee of the Assembly whose members represent the Opposition and the Government. The present Minister of Finance and the Board informed us this process will

Chapter 5 Accountability Process

continue for the 1992-93 spending estimates.

.12 We think the Act should be changed to ensure the law requires the Board to approve our spending. This change will enhance our perceived independence and improve the accountability of the Government to the Assembly.

Chapter 6

How We Audit and Report

General

.01 *The Provincial Auditor Act* requires us to audit all the accounts of the Government and report to the Legislative Assembly. Every agency of the government is subject to an annual audit by the Provincial Auditor.

.02 The law requires us to use auditing standards recommended by the Canadian Institute of Chartered Accountants. We form the following opinions:

- the accounts have been faithfully and properly kept;
- public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

Description of the Way We Conduct our Audits

.03 We conduct comprehensive audits. Comprehensive audits have three related but distinct components. The components are:

- auditing the adequacy of control systems used by an agency to safeguard and control public money;
- auditing an agency's compliance with the law as it relates to its spending, revenue raising, borrowing and lending activities; and
- auditing the financial statements prepared by management of an agency.

.04 When, in our opinion, an agency's control systems are not adequate we audit more transactions whenever possible. We do this to find out whether, for those transactions selected:

- there was any wilful or negligent non-collection of public money;
- public money has been duly accounted for and paid into the appropriate fund;

Chapter 6 How We Audit and Report

- appropriations were exceeded or applied to unauthorized purposes;
- expenditures had adequate authority and were properly vouchered or certified; and
- there has been a deficiency or loss to the crown.

.05 The work in paragraph 3 and the results of the additional audit procedures in paragraph 4 form the basis for this annual report. Appendix V to this report contains examples of professional opinions we form from our work in paragraph 3.

Exception Reporting

.06 This report focuses on those agencies where we are not satisfied with their control systems, compliance with authorities or financial statements.

.07 When, in our opinion, an agency's control systems, compliance with authorities and financial statements are all satisfactory we do not comment on the agency in our report. Also, the law does not require us to report on matters we believe are immaterial or insignificant.

.08 This report is, therefore, an exception report of the matters we believe need the attention of the Assembly. In general, the report does not give credit where, in our opinion, the administration of public money was satisfactory.

Limitations of an Audit

.09 Our audit may not find all errors or fraud that could be reported since we do not examine all transactions. It is not possible to have absolute assurance because of the inherent limitations of internal control, the need for judgement, and the use of testing. Also, a system that is satisfactory today, may not be so in the future.

Relationship with Appointed Auditors

.10 The law permits another auditor (appointed auditor) to examine the accounts of a crown agency or crown-controlled corporation or accounts otherwise related to public money. The law also permits us to rely on the appointed auditor to do our job for the Assembly.

.11 Where an appointed auditor examines the accounts of an agency, that auditor is not a substitute for the Provincial Auditor. We continue to be responsible to do the work in paragraph 3 and form the opinions in paragraph 5.

Audit Risk

.12 For the year 1990-91, appointed auditors examined approximately 50% of public spending. Since we continue to have responsibility for the audit of all public money, our reliance

Chapter 6 How We Audit and Report

on appointed auditors increases our risk in doing our job for the Assembly.

.13 In our opinion, we are not obtaining sufficient first-hand knowledge of crown corporations. As a result, we cannot assure the Assembly that all significant issues are brought to their attention. In Chapter 2, Appointed Auditors we recommend changes to *The Provincial Auditor Act* that will allow us to do our job more effectively.

Co-operation with Appointed Auditors and Crown Agencies

.14 Where there is an appointed auditor, there needs to be full co-operation among all parties, including the crown agency. Where there is not full co-operation, Members may not receive the information required under *The Provincial Auditor Act*. This year we again experienced cases where there was not full co-operation, i.e., delays in receiving reports and requested information.

.15 We explained in our 1988 annual report that it is not possible to determine if reliance on an appointed auditor is justified until after the year end. Where we cannot rely, it is not possible to do more audit work on the management control systems because the year end has passed. Audit work on control systems needs to be done during the year under review or shortly after because of the need to observe how control systems actually operate. In these cases the Assembly will not receive the information required under *The Provincial Auditor Act*.

.16 In addition, when the Assembly receives a crown corporation's financial statements it also receives the report of the appointed auditor on those statements. The Assembly does not receive our report on those financial statements until we make our annual report. This can be several months to a year later.

.17 When we do not rely on the report of an appointed auditor, public accountability is not well served. The Assembly might consider and approve a corporation's financial statements without knowing that we do not think the financial statements are reliable. This year, we again report cases where we think appointed auditors issued inappropriate reports on financial statements.

Appointed Auditor's Work and Reports

.18 The law permits reliance on appointed auditors when their work and reports are satisfactory. If we are not satisfied, we must by law conduct our own audit procedures and report the reason for the non-reliance, the nature of the additional audit work and the results to the Assembly.

.19 The law permits appointed auditors to conduct their audits of public money in the manner they consider necessary using generally accepted auditing standards. The appointed auditors must prepare reports on the results of their audits, and submit

them to the Provincial Auditor. The law requires our Office to compile these reports and include them as part of this annual report.

.20 Appendix II contains a list of the reports received from appointed auditors' indicating nothing of significance to be reported under Section 12 of the Act. Since this annual report is an exception report (see paragraphs .07 and .08), the contents of these reports have not been reproduced.

.21 When the appointed auditors' reports indicate there are matters to be reported under Section 12 of the Act, the contents of these reports are reproduced in Appendix II.

.22 At the date of this report, discussions continue with appointed auditors and work remains to be completed by our office for some crown agencies audited by appointed auditors. Therefore, we have been unable to determine whether or not we can rely on their reports. A list of these crown agencies is contained in Appendix III.

Chapter 7

Value-for-Money Audits

Broader Scope Value-for-Money Audits

.01 In the past, our audit work included examinations of financial accounting and reporting control systems used by the Government to safeguard and control public money. We are now beginning to examine the Government's systems and practices for ensuring resources are obtained economically and used efficiently and effectively. Such examinations are called broader scope value-for-money audits.

.02 In Canada, we are the last legislative audit office to carry out these types of audits. Being last allows us to draw upon the wealth of experience and knowledge of other legislative audit offices and the accounting profession as a whole. We have found the assistance of our legislative audit community invaluable and encouraging.

.03 We believe our audit findings, conclusions and recommendations will help the Government improve its operations. Also, the findings will assist the Members of the Legislative Assembly and the public assess whether the Government spent tax dollars wisely.

.04 We have started two pilot projects. Our first project focuses on the annual reports prepared by government departments. Its purpose is to determine whether those annual reports provide Members and the public the information needed to assess the performance of Government departments.

.05 Our second project centres on the Department of Highways and Transportation. We are examining the Department's systems and practices of managing its construction contracts and its summer highway surface maintenance program.

.06 We have not completed these pilot projects. Our next annual report will contain our findings, conclusions and recommendations. The following paragraphs review our approach.

Annual Reports

.07 Our project on annual reports focuses on the reports prepared by government departments. In the future, we will examine the annual reports prepared by crown agencies and corporations.

.08 The Government now provides Members and the public three sets of key documents. The documents are the Budget Address and Estimates, the Public Accounts, and the annual reports of individual organizations.

.09 Annual reports are one key accountability document Members can use to hold the Government accountable.

Information in those reports should help Members understand, assess and debate the performance of Government organizations.

.10 Our first task was to determine what kinds of information Government departments should provide in their annual reports. We began this task by reviewing similar studies done in other jurisdictions, by reviewing information on accountability, by reviewing studies on measuring and reporting on effectiveness, and by reviewing guidance available on clear writing, i.e., Clear Language Program.

.11 We concluded the Reporting on Effectiveness framework developed by the Canadian Comprehensive Auditing Foundation provides useful guidance. This framework provides twelve attributes to use when reporting on the effectiveness of an organization (see paragraph .17).

.12 We plan to use these attributes to assess the usefulness of the annual reports prepared by Government departments.

Department of Highways and Transportation

.13 We chose our second pilot project within the Department of Highways and Transportation for three main reasons. First, the Department is one of the largest Government organizations spending over \$220 Million in 1990-91. Second, its activities, e.g., road building and maintenance, are more identifiable and thus more easily examined. Third, the Department has the reputation of being well run. In addition, the Department's senior management welcomed the opportunity to participate.

.14 In this audit, we are examining two activities. The first centres on the systems and practices used by the Department to manage its contracts with private sector road builders. Contracts for construction and rehabilitation amounted to over \$100 Million in 1990-91.

.15 The second activity focuses on the systems and practices used by the Department in its summer highway surface maintenance program. Maintenance work amounted to over \$90 Million in 1990-91.

.16 We are currently determining what systems and practices the Department should have in place to manage its contracts and maintain highway surfaces. To do this, we are consulting with the Department and outside experts to determine industry standards. For each of these activities, we plan to evaluate the Department's systems and practices against industry recommendations.

The 12 Attributes of Effectiveness

Source: Canadian Comprehensive Auditing Foundation

.17 The 12 attributes of effectiveness are:

Management Direction

The extent to which the objectives of an organization, its component programs or lines of business, and its employees, are clear, well integrated and understood, and appropriately reflected in the organization's plans, structures, delegations of authority and decision-making process.

Relevance

The extent to which a program or line of business continues to make sense in regard to the needs of the public and customers that it was intended to serve.

Appropriateness

The extent to which the design of a program or its major components, and the level of effort being made are logical, given the specific objectives to be achieved.

Achievement of Intended Results

The extent to which goals and objectives have been realized.

Acceptance

The extent to which constituencies to whom a program or line of business is directed judge it to be satisfactory.

Secondary Impacts

The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.

Costs and Productivity

The relationships among costs, inputs and outputs.

Responsiveness

An organization's ability to adapt to changes in such factors as markets, competition, available funding or technology.

Financial Results

The matching of, and the accounting for, revenues and costs and the accounting and valuations of assets, liabilities and equity.

Working Environment

The extent to which the organization provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.

Protection of Assets

The extent to which important assets such as sources of supply, valuable property, key personnel, agreements and important records or information are safeguarded so that the organization is protected from the danger or losses that could threaten its success, credibility, continuity and perhaps, its very existence.

Monitoring and Reporting

The extent to which key matters pertaining to performance and organizational strength are identified, reported, and carefully monitored.



Chapter 8

Board of Directors Pay and Expenses

Requirements

.01 Section 16 of *The Interpretation Act* states the person who has the power to make an appointment also decides the pay and expenses of the person appointed.

.02 The Executive Government has the authority to appoint boards of directors for crown agencies. It uses Orders-in-Council or Ministers' Orders to do so. We believe the Act requires an Order-in-Council or Ministers' Order to set the pay and expenses for directors.

.03 In our 1990 annual report, we reported on directors' pay and expenses for the Crown Investments Corporation of Saskatchewan (CIC). We reported that directors' pay and expenses required Order-in-Council approval.

.04 CIC did not agree with our view. However, CIC advised us future Orders would set pay and expenses. A subsequent Order did not set pay and expenses.

Our Audit Findings

.05 This year, we conducted a review of all crown agencies to find out if the problem of unauthorized directors' pay and expenses was widespread. We reviewed 79 crown agencies.

.06 55 crown agencies had proper approval for the pay and expenses of their directors. 24 crown agencies did not have proper authority for the pay and expenses of their directors.

.07 In 1991, these 24 agencies paid their directors \$849,569 without proper authority.

.08 We recommend agencies obtain proper authority for the pay and expenses of directors.

.09 Also, we found an Order that allowed a Board of Directors to set its own expenses. We do not believe this is a good business practice.

.10 The following is the list of crown agencies that do not have proper authority for the pay and expenses of their directors.

Battlefords Regional Care Centre
Cattle Marketing Deductions Act Advisory Committee
CIC
Lakeside Home
La Ronge Hospital Board
Regina General Hospital
Palliser Regional Care Centre
Parkland Regional Care Centre
Parkridge Centre

Chapter 8 Board of Directors Pay and Expenses

Prairie Agricultural Machinery Institute
St. Louis Alcoholism Rehabilitation Centre
Saskatchewan Beef Stabilization Board
Saskatchewan Crop Insurance Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Forest Products Corporation
Saskatchewan Government Insurance
Saskatchewan Housing Corporation
Saskatchewan Legal Aid Commission
Saskatchewan Power Corporation
Saskatchewan Research Council
Saskatchewan Telecommunications
Souris Basin Development Authority
Souris Valley Regional Care Centre
Whitespruce Youth Treatment Centre

Roles and Responsibilities of Directors

.11 Next year, we plan to review and report on the role and responsibility of directors. We think this information will be useful in helping directors hold management accountable.

.12 This kind of information might have helped the directors of Saskatchewan Transportation Company (STC) hold management accountable and help prevent the problems reported in our chapter on STC.

Chapter 9

The Tabling of Documents Act

Requirements

.01 *The Tabling of Documents Act* governs the timing of the preparation and submission of most annual reports of government organizations. One objective of the Act is to provide annual reports to Members of the Legislative Assembly early in any session of the Assembly.

.02 For several years we recommended a change to the Act to clarify the number of days allowed to table a document after a session begins.

.03 Bill 8 changed the Act, in December 1991, to allow 15 sitting days to table a document.

Our Audit Findings

.04 As part of our audit, we check whether organizations comply with the Act when their annual report contains financial statements. For several years we produced a list of organizations that did not comply with the tabling requirement in the Act.

.05 In our opinion, annual financial statements were presented in a more timely manner in 1990-91 than in the past several years. There were several reasons for this. Government agencies made the preparation of annual financial statements a priority. The Provincial Comptroller closely monitored the organizations' preparation of their financial statements. Our Office received enough resources to make our work more timely.

.06 We did not produce a list of organizations not complying with the Act this year because the problem was not as widespread as the past several years. This year, we report where organizations did not comply with the Act in the chapter dealing with the particular organization.



Chapter 10

Controls Over Information Systems

.01 Our audit of departments, crown agencies and crown-controlled corporations includes a review of their computerized information systems. The objective is to determine if their systems are:

- properly developed, documented and maintained,
- processing complete, accurate and timely information,
- adequately secured including appropriate division of duties, and
- able to recover quickly if an interruption or disaster occurs.

.02 Our review did not include local area networks and personal computers. We plan to evaluate security and contingency planning for those systems in our next annual report. We also plan to review the documentation standards of personal computer programs at various agencies.

.03 We reported in our 1988 annual report that controls over information systems needed improvement. We also reported the Provincial Comptroller issued policies in 1989 that, if carried out, would deal with our concerns.

.04 In this report we comment on records security and contingency planning.

Records Security

.05 In 1988, we reported many government entities use service bureaus to process and store their records. We also reported the Government lacked a policy on security audits on these bureaus. A policy is required on when or how often a service bureau should provide an audited report that security over its operating system and processing environment is adequate. Our concern was government entities did not know if their records were properly protected or could not be sure their data files and programs were not compromised.

.06 Government entities received audited security reports from a major service bureau for December 1989 and December 1990. We reviewed these reports and found the bureau had adequate security to protect the records of government entities. The reports state security over the information systems environment was adequate at the date of the reports.

.07 However, there is still no policy on when or how often a security audit is required. The Financial Administration Manual issued by the Department of Finance should provide guidelines on this matter.

.08 Since our 1988 report, we found government entities have improved security over their records at the major service bureau. However, government entities need to improve controls over the access of computer programmers to government records. These access controls are necessary to ensure the records are reliable.

Contingency Plans

.09 In 1988, we reported the need to have written contingency plans. We also reported the need to have written policies stating the computer files and computer programs that need to be copied and retained. Our concern is the ability of government entities to provide adequate service in the event of equipment failure.

.10 The Provincial Comptroller issued a policy requiring that all departments ensure system operations can be recovered and resumed after interruption.

.11 We found several government entities have adequate Disaster Recovery Plans. The most notable is the Department of Finance. Their plan includes the Revenue and Expenditure system and the Human Resource system.

.12 However, there are still government entities that do not have adequate written and tested contingency plans. We report these deficiencies in other chapters.

Chapter 11

Agricultural Development Corporation of Saskatchewan

.01 Under contracts the Corporation (AGDEVCO) provided personnel to carry out agricultural projects in developing countries. AGDEVCO also traded internationally, importing and exporting products. AGDEVCO was wound up in December 1990.

.02 AGDEVCO had revenues of \$2.7 Million in 1990 and had no assets at December 31, 1990. AGDEVCO's financial statements are included in its annual report.

Public Accountability

.03 In our 1990 annual report, we stated at March 8, 1991 we had not completed our audit of AGDEVCO for the year ended December 31, 1989. The appointed auditor was late sending the reports to our Office; this delayed our work.

.04 In our opinion, the appointed auditor's delay in providing our Office the reports impaired AGDEVCO's public accountability for its 1989 operations because we were not able to report on time.

Our Audit Findings

.05 The audits for 1989 and 1990 are now complete. In our opinion, the financial statements for 1990 are reliable. The financial statements for 1989 are reliable except for the matter we report in paragraphs .10 and .11. AGDEVCO complied with the authorities governing its activities as those activities relate to its financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. AGDEVCO's rules and procedures to safeguard and control its assets were adequate except for the following matters.

Policies and Procedures Manuals

.06 Our past reports state AGDEVCO did not have current policy and procedure manuals. Our concern was changes in staff and staff duties could cause a breakdown in control due to the lack of these manuals. Our concern continues for the 1990 and 1991 year, as the manuals remain out of date and incomplete.

Segregation of Duties

.07 In addition, AGDEVCO did not adequately segregate the duties of employees. Segregation of duties is inadequate when one person can conceal an error or fraud.

.08 Due to the limited staff size of AGDEVCO, a complete segregation of duties was not practical. Also, the Board of Directors was not involved in day to day operations and there were no other controls to prevent or detect unauthorized transactions.

.09 In 1990, we reported AGDEVCO lost \$534,000. The control deficiencies identified in paragraphs .06 to .08 contributed to this loss.

Reservation in Our
Auditor's Report

.10 *The Provincial Auditor Act* requires us to report any reservation in an audit opinion. Our report on AGDEVCO's 1989 financial statements contains a reservation of opinion.

.11 Our opinion on the 1989 financial statements follows:

A wholly owned subsidiary company of the Agricultural Development Corporation of Saskatchewan is a partner in a joint venture project in an overseas country. The auditors of that joint venture have advised that they are not able to complete their audit and report on the joint venture activities because the accounting records of that joint venture are not complete. Accordingly, I have been unable to determine whether any adjustments may be necessary to accounts receivable, accounts payable, net income or contingent liabilities in these financial statements.

In my opinion, except for the effect of adjustments, if any, that I might have determined necessary had I been able to satisfy myself with respect to the accounts of the joint venture as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of Agricultural Development Corporation of Saskatchewan as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

.12 The report advises that we could not determine the amounts AGDEVCO should have recorded in its accounts for a joint venture operating in a foreign country. Accordingly, the statements are reliable except for any adjustments to the accounts that might be required for this matter.

Chapter 12

Crown Investments Corporation of Saskatchewan

.01 The Corporation (CIC) holds the shares of several corporations. It also provides advice to Cabinet about the operations of corporations subject to Part II of *The Crown Corporations Act, 1978*.

.02 CIC includes financial statements in its annual report. These financial statements do not show CIC's revenues, expenses, assets and liabilities.

Our Audit Findings

.03 In our opinion, CIC's financial statements included in its annual report are not reliable for the reasons stated in paragraphs .04 to .11. CIC's rules and procedures to safeguard and control its assets were adequate. CIC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

Public Accountability

.04 *The Crown Corporations Act, 1978* requires CIC to prepare financial statements using generally accepted accounting principles (GAAP).

.05 The appointed auditor gave an unqualified auditor's report on CIC's 1990 financial statements (see paragraph .38).

.06 *The Provincial Auditor Act* requires us to give details of any reservation of opinion made in our auditor's report.

.07 Our opinion on the CIC's 1990 financial statements contains a reservation.

.08 Our auditor's report advises that CIC's financial statements do not follow GAAP. The financial statements incorrectly mix CIC's financial results with the financial results of "Part II" Crown corporations such as the Saskatchewan Power Corporation. As a result, the financial statements do not present fairly the financial position of CIC at December 31, 1990.

.09 We base our opinion on the basic principle of the accountability of the Executive Government to the Legislative Assembly. That is, CIC (Government) should provide financial statements that show how it managed the assets entrusted to it by the Assembly. In our opinion, the Assembly did not entrust CIC with the assets of the Part II Crown corporations, such as, Saskatchewan Power Corporation.

.10 CIC's public accountability to the Assembly is not well served with the current financial statements. Those financial statements do not give the Assembly the information needed to

judge CIC's management of the assets entrusted to it by the Assembly. The financial statements incorrectly mix the financial results of CIC with the financial results of the "Part II" corporations.

.11 Our opinion on the December 31, 1990 financial statements follows:

Note 1a to the consolidated financial statements explains that, in addition to the financial results of the subsidiary companies of Crown Investments Corporation of Saskatchewan, these consolidated financial statements include the financial results of those corporations designated by the Lieutenant Governor in Council as subject to Part II of The Crown Corporations Act, 1978. Generally accepted accounting principles require that when a company has one or more subsidiaries, that company's financial statements should be prepared on a consolidated basis, except where the parent company does not have control over the subsidiary's assets or operations and in certain other specific situations. This precludes from consolidation the financial results of companies that are not subsidiaries. Since the corporations subject to Part II of The Crown Corporations Act, 1978 are not subsidiaries and since the Legislature has not delegated control of these corporations to Crown Investments Corporation of Saskatchewan, the requirements under generally accepted accounting principles for inclusion of their financial results in these consolidated financial statements have not been met. In this respect, these consolidated financial statements are not, in my opinion, presented in accordance with generally accepted accounting principles.

Had consolidated financial statements been prepared for Crown Investments Corporation of Saskatchewan and the subsidiary companies it controls, virtually every account in, and the information provided by way of notes to, the accompanying financial statements would be materially different.

In my opinion, because these consolidated financial statements include the financial results of corporations that are not subsidiaries as described in the preceding paragraphs, these consolidated financial statements do not present fairly the consolidated financial position of the Corporation as at December 31, 1990 and the results of its operations and the changes in its financial position

for the year then ended in accordance with generally accepted accounting principles.

Community Bond
Program Expenses
Lack Authority

.12 The Saskatchewan Diversification Corporation (SDC) is a wholly owned subsidiary of CIC Industrial Interests Inc. (CIC III). CIC III is a wholly owned subsidiary of CIC. SDC finances its operations entirely from operating money received from CIC III.

.13 We found SDC incurred expenses of \$1,559,724 for administration of the Community Bond Program during the eleven month period ended March 31, 1991. However, *The Community Bonds Act* does not authorize SDC to pay the expenses of managing the Program. The expenses of the Program must be paid from the Consolidated Fund.

.14 In our opinion, SDC's payment of the Program's expenses was, in effect, a transfer of funds to the Consolidated Fund. Section 25 of *The Financial Administration Act* provides:

All public money other than:

- a) public money over which the Legislature has no power of appropriation; and*
- b) money otherwise specially disposed of by the Legislature;*

is to form one consolidated fund to be appropriated for the public services of Saskatchewan.

.15 In our opinion, the money used by SDC to pay the expenses of the Program should have been paid into the Consolidated Fund and appropriated for the Program. This process would give the Members of the Legislative Assembly the opportunity to approve the funding of the Program.

Advances Lack
Authority

.16 The Minister of Economic Diversification and Trade entered into an agreement with The Flax Council of Canada (Council) dated May 18, 1990. Under the agreement the Minister agreed to make a \$375,000 advance to the Council. The Council agreed to advance the money received to an agency created to review and research the marketing of flax.

.17 SDC paid \$150,000 of the advance during the eleven month period ended March 31, 1991.

.18 In our opinion, the law limits powers of SDC to the powers of its parent company CIC.

.19 Under *The Crown Corporations Act, 1978*, CIC has power to provide advances only to those agencies designated by Cabinet

as subject to Part II of the Act. The agency receiving the funds was not so designated.

.20 Therefore, in our opinion, the advance made by SDC lacks authority.

Share Purchases Lack Authority

.21 In our opinion, subsection 24(1)(n) of *The Crown Corporations Act, 1978* requires CIC to obtain an Order-in-Council before buying shares of a corporation.

.22 As stated earlier, the law limits the powers of SDC and CIC III to the powers of its parent company CIC. In our opinion, both SDC and CIC III acted beyond their authority when they bought shares of corporations without Order-in-Council approval.

.23 SDC bought shares of the following companies during its fiscal period ended March 31, 1991.

Trinitel International Corporation	\$ 400,000
Sci-Tec Instruments Inc.	200,000
Precision Metal Fabricating Ltd.	150,000
Redvers Agriboard Industries Inc.	150,000
Canora Heavy Industries Corporation	100,000
Prairie Aerospace Ltd.	95,004
Veltek Wood Systems Incorporated	<u>2</u>
	<u>\$1,095,006</u>

.24 CIC does not interpret subsection 24(1)(n) this way. CIC believes it was within its authority to buy shares through its subsidiary companies without Order-in-Council approval. As a result, CIC did not obtain Order-in-Council approval to buy these shares.

.25 In our opinion, these share purchases lack authority.

.26 CIC III held shares of the following companies at December 31, 1990.

Saferco Products Inc. (1989 - \$2,524,000)	\$7,910,000
Millar Western Pulp (Meadow Lake) Ltd.	49

.27 For the reasons stated in paragraph .24, CIC did not obtain Order-in-Council approval to buy these shares.

.28 In our opinion, these share purchases lack authority.

**Loans, Assistance and
Loan Guarantees Lack
Authority**

.29 Subsection 24(1)(o.1) of the Act, allows CIC to provide loans, assistance and loan guarantees to a corporation if CIC holds shares of the corporation.

.30 In our opinion, both SDC and CIC III acted beyond their powers. They provided loans, assistance and loan guarantees to corporations in which they did not hold properly authorized shares.

.31 SDC provided loans, assistance or loan guarantees to the following corporations during its fiscal period ended March 31, 1991.

Trinitel International Corporation (Guarantee)	\$300,000
Veltek Wood Systems Incorporated (Loan)	55,000
Prairie Aerospace Ltd. (Assistance)	32,000

.32 In our opinion, these loan, assistance and guarantee transactions lack authority as the purchase of the shares of these companies lacked authority.

.33 Further, SDC has provided a performance bond guarantee for Trail-Rite Flatdecks Ltd. of \$395,400. Neither CIC, CIC III nor SDC hold shares, bonds, debentures or other securities in this company. In our opinion, this guarantee transaction also lacks authority.

.34 CIC III provided loans, assistance or loan guarantees to the following organizations directly or through wholly owned subsidiary companies.

Millar Western Pulp (Meadow Lake) Ltd. (Loan) (1989 - \$1,812,000)	\$10,578,000
Dairy Producers Co-operative Limited (Loan)	10,000,000
Millar Western Pulp (Meadow Lake) Ltd. (Guarantee) (1989 - \$980,000)	980,000

.35 Neither CIC nor its wholly owned subsidiary companies hold shares, bonds, debentures or other securities in Dairy Producers Co-operative Ltd. Also, the share investment in Millar Western Pulp (Meadow Lake) Ltd. lacked authority, therefore, any loan or guarantee to this corporation also lacks authority.

.36 Accordingly, in our opinion, these loan and loan guarantees lack authority.

Appointed Auditor's
Reports

.37 We relied on the appointed auditor's report on internal control and compliance with authorities.

.38 We did not rely on the appointed auditor's report on CIC's financial statements. We have a difference of opinion whether CIC's financial statements are appropriate. The appointed auditor accepted CIC's financial statements. In our opinion, CIC's financial statements are inappropriate.

.39 *The Provincial Auditor Act* requires us to conduct additional audit procedures where we are unable to rely on the report of an appointed auditor.

.40 The appointed auditor's procedures were sufficient to allow us to form our opinions except that we conducted additional audit procedures for the matters discussed in paragraphs .12 to .36.

Chapter 13

Department of Agriculture and Food

Consolidated and Heritage Funds

.01 The Department managed Consolidated Fund appropriations of \$400 Million and Consolidated Fund revenues of \$249 Million in 1991. The Department also managed Heritage Fund appropriations of \$21 Million and Heritage Fund revenues of \$16 Million. Volume II of the Public Accounts reports information about the Department's Consolidated Fund revenues and appropriations at pages 9 and 32 respectively. Volume II of the Public Accounts also reports information about the Department's Heritage Fund revenues and appropriations at pages 204 and 206 respectively.

.02 The following is a list of major programs and the spending on those programs:

Consolidated Fund

Payments for Canada-Saskatchewan Crop Assistance Program	\$277 Million
Payments to Agricultural Credit Corporation	47 Million
Payments for loan guarantees	19 Million
Payments under the Crop Drought Assistance Program	19 Million
Payment to the Agricultural Returns Stabilization Fund	8 Million
Payments under the Feed Grain Adjustment Program	8 Million
Other	22 Million

Heritage Fund

Payment to Farm Purchase Program Fund	\$ 13 Million
Interest rebate grants to farmers	8 Million

.03 The following is list of major revenue sources:

Consolidated Fund

Transfers from the Government of Canada	\$238 Million
Other	11 Million

Special Purpose Funds and Crown Agencies

.04 The Department was also responsible for the following crown agencies and special purpose funds:

Agricultural Credit Corporation of Saskatchewan
Agriculture Development Fund
Cattle Marketing Deductions Fund
Crop Reinsurance Fund for Saskatchewan
Farm Purchase Program Fund

Milk Control Board
Agricultural and Food Products Development and
Marketing Council
Conservation and Development Revolving Fund
Horned Cattle Fund
Prairie Agricultural Machinery Institute
Saskatchewan Agricultural Returns Stabilization Fund
Saskatchewan Beef Stabilization Board
Saskatchewan Crop Insurance Corporation
Saskatchewan Grain Car Corporation
Saskatchewan Horse Racing Commission
South Saskatchewan River Irrigation District # 1
Tripartite Beef Administration Board

Our Audit Findings

.05 In our opinion, the Department's rules and procedures to safeguard and control its Consolidated and Heritage Fund appropriations and revenues were adequate. The Department complied with the authorities governing its Consolidated and Heritage Fund appropriations and revenues as its activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing.

.06 In our opinion, the financial statements for the agencies and special funds listed in paragraph .04 are reliable. The rules and procedures used by the agencies and the Department to safeguard and control the assets of the agencies and special funds listed in paragraph .04 were adequate except where we report otherwise in this chapter. The Department and its agencies complied with the authorities governing the activities of the agencies and special funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

**AGRICULTURAL
AND FOOD
PRODUCTS
DEVELOPMENT
AND MARKETING
COUNCIL**

.07 The Council is responsible for the following development and marketing boards. These boards are elected by Producers.

Saskatchewan Broiler Hatching Egg Producers' Marketing Board
Saskatchewan Commercial Egg Producers' Marketing Board
Saskatchewan Chicken Marketing Board
Saskatchewan Pork Producers' Marketing Board
Saskatchewan Pulse Crop Development Board
Saskatchewan Sheep Development Board
Saskatchewan Turkey Producers' Marketing Board
Saskatchewan Vegetable Marketing and Development Board

Annual Report Needs
Financial Statements

.08 The Council prepares an annual report for the Legislative Assembly. *The Agri-Food Act* requires the Council to report

certain information about the activities of marketing boards in the Council's annual report. There is no requirement to include the financial statements of these boards in the Council's annual report.

.09 We believe accountability would be improved if the Council included the financial statements of these boards in the Council's annual report.

Council Needs to
Monitor Development
and Marketing Boards

.10 We found deficiencies in the rules and procedures to safeguard and control the assets of two of the boards. We also found these boards did not comply with the authorities governing their activities. Information about these two boards appear in paragraphs .12 to .33.

.11 We recommend that the Council monitor the activities of boards to ensure they comply with authorities and have adequate rules and procedures to safeguard and control their assets.

**SASKATCHEWAN
SHEEP
DEVELOPMENT
BOARD**

.12 The Saskatchewan Sheep Development Board (SSDB) finds markets for, assembles and transports sheep for producers. It also provides supplies for producers.

.13 The SSDB had revenue of \$142,575 in 1990 and held assets of \$44,117 at December 31, 1990. The financial statements of the SSDB were not included in its annual report.

Our Audit Findings

.14 In our opinion, the SSDB's financial statements are reliable, but the financial statements were not made public (see paragraph .26). The SSDB complied with the authorities governing its financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing activities except for the matters reported in paragraphs .18 to .27. The SSDB's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

Written Policies and
Procedures Required

.15 The SSDB has not documented its rules and procedures to safeguard and control its assets and comply with the law. These rules and procedures should contain the broad objectives of internal control and policies for ensuring the objectives are attained.

.16 The objective of internal control is to ensure, as far as practical, the orderly and efficient conduct of the SSDB's business. This includes the discharge of its statutory responsibilities, the prevention and detection of error and fraud, the safeguarding of assets, the reliability of accounting records and the timely preparation of financial information.

Annual Meeting of
Producers Required

.17 We found the SSDB lacked a policy for selling goods on credit and a policy for its existing insurance scheme. We also found the SSDB did not comply with the law for the following matters.

.18 SSDB's Board of Directors did not call meetings of registered producers during 1990. Subsection 16(1) of The Sheep Development Plan Regulations requires the Board of Directors to call an annual general meeting of registered producers each year. The registered producers are responsible for:

- appointing an auditor,
- fixing the remuneration to be paid to the Board of Directors, and
- approving (a) a proposed budget outlining the collection and expenditure of funds during the next fiscal year and (b) an outline of proposed programs and activities for the next fiscal year.

.19 In our opinion, registered producers have not carried out their assigned responsibilities because SSDB's Board of Directors did not call an annual general meeting.

Board Needs to Keep
Minutes

.20 Section 24 of The Sheep Development Plan Regulations states the SSDB shall hold an annual meeting in each fiscal year consisting of five regional annual meetings. The Section also states the required meeting times, reports, elections and quorum.

.21 SSDB did not keep minutes of the proceedings of these meetings. Accordingly, there is no evidence of the business conducted or the decisions made.

Verification System
Not Adequate

.22 Subsection 19(3) of The Sheep Development Plan Regulations states SSDB shall establish and maintain a verification system for:

- a) ensuring an accurate count of breeding ewes owned by registered producers, and
- b) identifying incomplete reports filed by registered producers.

.23 SSDB did not establish such a system. As a result, SSDB does not know if all producers with greater than 10 breeding ewes:

- are registered,

Chapter 13 Department of Agriculture and Food

- have paid the required service fees, and
- have filed the required reports.

Penalties Not Assessed

.24 SSDB did not assess penalties against producers who have outstanding fees. Marketing Order 8/89 states SSDB shall assess a further penalty of 5% per month to producers who fail to remit service fees and charges within 30 days of billing.

Board Needs Insurance

.25 During the year, SSDB quit buying insurance on all sheep and lambs it markets. Marketing Order 10/89 states the Board shall carry insurance with an insurance company for all sheep and lambs it markets.

Public Accountability

.26 SSDB's 1989 and 1990 annual reports did not contain financial statements. Subsection 9(3) of The Sheep Development Plan Regulations requires SSDB's annual report to contain the audited financial statements.

.27 In our opinion, SSDB's failure to make its financial statements public impaired its public accountability.

SASKATCHEWAN VEGETABLE MARKETING AND DEVELOPMENT BOARD

.28 The Board provides for the orderly and effective development of the Saskatchewan Vegetable Industry. Producers pay a fee when they market vegetables.

.29 The Board had revenue of \$30,450 for 1990 and had assets of \$13,929 at June 30, 1990.

Our Audit Findings

.30 In our opinion, the Board's financial statements are reliable. The Board complied with the authorities governing its activities related to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .31 to .33. The Board's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

Fees May Not be Collected

.31 Section 19(1) of The Vegetable Marketing and Development Plan Regulations requires the Board to collect fees from every vegetable producer who markets \$10,000 or more in a fiscal year.

.32 The Board's rules and procedures do not ensure the collection of fees from vegetable producers who market \$10,000 or more in a fiscal year. Accordingly, the Board does not know if it collected all its revenue.

**AGRICULTURAL
CREDIT
CORPORATION
OF
SASKATCHEWAN**

.33 Management informed our office it was not practical for the Board to ensure compliance with the law.

.34 The Corporation (ACS) lends money to farmers. ACS has developed several lending programs to service specific financing needs.

.35 ACS had revenue of \$113.5 Million in 1991 and held assets of \$667.7 Million at March 31, 1991. ACS's financial statements are included in the Public Accounts Compendium of Financial Statements at page B 1.

Public Accountability

.36 We reported in our 1990 annual report we had not completed our audit of ACS for the year ended March 31, 1990 at March 8, 1991. The appointed auditor was late in sending the 1990 reports to our office. This delayed our work.

.37 This delay impaired the public accountability of ACS because we were not able to report to the Assembly on time about its 1990 operations. Our 1990 and 1991 audits are now complete.

.38 We relied on the appointed auditor's 1990 and 1991 reports on the financial statements and the 1990 and 1991 reports on internal control.

.39 We were unable to rely on the appointed auditor's 1990 and 1991 reports on compliance with authorities because the reports did not include the matter described in paragraphs .42 to .48. The reporting or non-reporting of this matter is subject to judgement.

.40 *The Provincial Auditor Act* requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor. Since the issue was of a legal nature, our additional procedures consisted of obtaining legal advice and discussing issues with the appointed auditor.

Our Audit Findings

.41 In our opinion, ACS's financial statements included in the Compendium are reliable. ACS's rules and procedures to safeguard and control its assets were adequate except for the significant deficiencies reported in paragraphs .49 to .55. ACS complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Fee Lacks Authority

.42 In our opinion, ACS acted beyond its authority when it began charging borrowers a 2% fee on all capital loans approved after October 1987. This fee increases the effective rate of

interest charged to farmers. ACS started charging this fee in the 1988 fiscal year. ACS calls the fee a "capital loss allowance fee".

.43 ACS charged \$782,000 in 1991 (\$302,000 in 1990) for capital loss allowance fees. To March 31, 1991 the accumulated charge for this fee was \$1,264,000.

.44 In our opinion, Sections 10(1) and 26 of *The Agricultural Credit Corporation of Saskatchewan Act* require the Lieutenant Governor in Council (Cabinet) to set the rates of interest.

.45 Also, in our opinion, according to the Act, the purpose of ACS is to help farmers get credit at rates below those available from commercial sources. Accordingly, the 2% fee may be beyond the powers of ACS, even if authorized by Cabinet if it puts the effective rate of interest above the rates charged by commercial sources.

.46 ACS's management believes Section 10(2) of the Act gives ACS broad powers, and therefore it does not require further authority to charge this fee.

.47 Both ACS and our office have legal advice supporting the respective positions.

.48 We recommend that if the Assembly wants ACS to collect these fees, the law should be changed.

Segregation of Duties

.49 ACS did not adequately segregate the duties of persons using its computer systems. Segregation of duties is inadequate when one person can conceal an error or fraud. With computer systems, persons who design computer programs should not be able to carry out changes to the programs.

.50 A consulting firm can make changes to programs without ACS's knowledge. Senior staff from the consulting firm could also modify ACS's security tables without ACS's knowledge and approval.

.51 This lack of segregation of duties could result in corporate data being manipulated or lost without timely detection.

.52 We reported this matter in our 1990 annual report.

Contingency Plan

.53 ACS should have a written and tested plan that ensures continued operations if a major loss or destruction of records occurs.

.54 We found ACS did not have a written and tested plan to ensure it can recover in a timely and efficient manner in the event of a major loss or destruction of its records.

.55 We reported this matter in our 1990 annual report.

**CATTLE
MARKETING
DEDUCTIONS
FUND**

.56 The Department manages the Cattle Marketing Deductions Fund. This Fund receives levies charged to producers when cattle are sold. The Department uses these levies to develop, improve and promote the cattle industry.

.57 The Fund received \$1.2 Million in revenue in 1991 and had assets of \$1.3 Million at March 31, 1991. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 164.

Our Audit Findings

.58 In our opinion, the Fund's financial statements included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiencies.

**Supervision of
Employees**

.59 The accounts for the Fund were not properly kept to prepare accurate financial statements. We discovered significant errors in the accounts requiring correction before accurate financial statements could be prepared. The Department did not record several entries from the 1990 fiscal year in the accounts. Also, the Department did not record three months of revenue in the accounts and its record of the amount owing to this fund from the Consolidated Fund was incorrect. Management needs to supervise employees more closely.

**Billings Need to be
Timely**

.60 The Department's billings were not timely. At the time of our audit the Department was 3 months behind in billing.

**FARM PURCHASE
PROGRAM FUND**

.61 The Department manages the Farm Purchase Program Fund. The Department of Rural Development manages the leasing of crown lands. The Fund receives money from leasing crown lands and from an appropriation of the Saskatchewan Heritage Fund. The Department uses the revenue from these sources to pay the interest costs on debt incurred by the former Saskatchewan Land Bank Commission.

.62 In 1991, the Fund received \$13.3 Million from the Saskatchewan Heritage Fund, \$6 Million from leases of crown lands and \$.9 Million from interest and penalties for a total of \$20.2 Million. The financial statements of the Fund are included in Public Accounts Compendium of Financial Statements at page B 181.

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Our Audit Findings

.63 In our opinion, the financial statements of the Fund included in the Compendium are reliable. The Department had adequate rules and procedures to safeguard and control the assets of the Fund. The Department complied with the authorities governing the activities of the Fund as those activities pertain to financial reporting, safeguarding of assets, revenue raising, spending, borrowing, and investing except for the following matter.

Loss of Public Money

.64 The Land Bank Temporary Provisions Regulations, 1983, governs lease rates. The Department charged lessees 1990 lease rates rather than 1991 rates.

.65 In our opinion, the use of incorrect rates resulted in the Department failing to collect approximately \$3 Million in lease revenue.

HORNED CATTLE FUND

.66 The Department manages the Horned Cattle Fund. The Fund receives revenue when producers market horned cattle and when the Department sells cattle held for the Fund. The Department uses the revenue to promote research and development in the livestock industry.

.67 In 1991, the Fund received \$.6 Million in revenue. The Fund had assets of \$1.1 Million at March 31, 1991. The financial statements for the Fund are included in Public Accounts Compendium of Financial Statements at page A 110.

Our Audit Findings

.68 In our opinion, the financial statements included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities pertain to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiencies.

Supervision of Employees

.69 The accounts for the Fund were not properly kept. We discovered significant errors in the accounts that needed to be corrected in order to prepare accurate financial statements. The Department recorded a \$10,000 loan as an expense. The Department did not record 3 months of revenue and did not balance the amount owed to the Fund by the Consolidated Fund to the records of the Consolidated Fund. Management needs to supervise employees more closely.

Billings Need to be Timely

.70 The Department's billing was not timely. At the time of our audit the Department was 3 months behind in its billing.

Chapter 13 Department of Agriculture and Food

Ability to Know if Public Money is Used for Authorized Purposes

.71 The Department did not have procedures to ensure the \$10,000 it loaned to an Agricultural Society was used for authorized purposes. The purpose of the loan was to permit the Society to hire casual workers to carry out an approved project. The Department did not receive any reports from the Society to show how it spent the money.

.72 We also reported this matter in our 1990 annual report. In that year, the Department loaned the Society \$40,000.

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE

.73 The Institute tests and appraises agricultural machinery, publishes reports and undertakes work to develop and improve agricultural machinery.

.74 The Institute received \$2.2 Million in revenue in 1991 and held assets of \$4.5 Million at March 31, 1991. The financial statements of the Institute are included in the Public Accounts Compendium of Financial Statements at page B 40.

Our Audit Findings

.75 In our opinion, the financial statements of the Institute included in the Compendium are reliable. The Institute's rules and procedures to safeguard and control its assets were adequate except it did not have rules and procedures to ensure it complied with the law (see paragraphs .76 to .78). The Institute complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Payments Require Authority

.76 The Institute entered into a contract with the Saskatchewan Research Council for management services and paid \$60,000 under this contract. The Institute did not obtain the Minister's approval for the contract.

.77 *The Prairie Agricultural Machinery Institute Act* requires that the Minister determine the pay for persons rendering these services.

.78 In our opinion, these payments did not have adequate authority.

SASKATCHEWAN AGRICULTURAL STABILIZATION FUND

.79 The Department is responsible for the Fund. The Department uses the fund to finance three programs. The programs are the Saskatchewan Hog Assured Returns Program (SHARP) begun in 1976, the Cow Calf to Finish Market Insurance Plan begun in 1982 and the Feeder Finish Market Insurance Plan begun in 1983. These Plans were insurance schemes. Producers paid premiums. The Department matched these premiums and producers were guaranteed a specific price for their animals. The Government ended the Cow Calf and Feeder

Finish Programs at March 31, 1990 and October 31, 1989 respectively. The Government ended SHARP March 31, 1991. The Government replaced these three plans with a national tripartite price stabilization scheme.

.80 The Saskatchewan Pork Producers Marketing Board managed the day to day affairs of SHARP. The Saskatchewan Beef Stabilization Board managed the Cow Calf and Feeder Finish Plans. Producers owed a levy when they sold animals and the law required the Department to match the producers levy. The Fund received these amounts. These agencies paid producers stabilization payments out of the Fund.

.81 The Fund received \$.7 Million in revenue in 1991 and had assets of \$13.9 Million at March 31, 1991. The Government incurred losses of \$139.7 Million on these insurance schemes since their beginning. The Government had losses of \$35.1 Million for SHARP, \$45.6 Million for the Cow Calf program and \$59.0 Million for the Feeder Finish program. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 243.

Our Audit Findings

.82 In our opinion, the financial statements for the Fund included in the Compendium are reliable. The rules and procedures used to safeguard and control the assets of the Fund were adequate. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

**Borrowing Authority
Required**

.83 Order-in-Council 288/86 limits the borrowing for the purposes of SHARP to \$35 Million dollars. At March 31, 1991 \$35.1 Million was borrowed to finance SHARP.

.84 According to the Act governing SHARP the Department may only borrow from the Minister of Finance. However, the Department borrowed \$.9 Million from a commercial lender.

.85 In our opinion, the borrowing limits were exceeded and the Department did not have authority to borrow from the commercial lender.

Public Accountability

.86 The law requires the Department to give the Assembly an annual report for the Fund. The Assembly required the 1990 annual report for the Fund by May 1, 1991.

.87 At the date of this report the Assembly has not received the 1990 annual report. In our opinion, the Department's delay in making the Fund's annual report public impaired the Department's

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public accountability for its 1990 operation of the Fund.

Payments Lack Authority

.88 In our opinion, the Department made unauthorized payments out of the Fund to cow/calf producers totalling \$108,700.

.89 The Department made these payments to cow/calf producers who enrolled in the National Tripartite Program. Producers received the difference between the stabilization payment due under the Tripartite Program and the stabilization payment due under the Cow/Calf Plan for the period October 1 to December 31, 1988.

SASKATCHEWAN BEEF STABILIZATION BOARD

.90 The Board (SBSB) was responsible for managing a tripartite stabilization program for beef and honey producers until September 1, 1990. At that date, the management of the program became the responsibility of its successor the Tripartite Beef Administration Board. The Board also managed a trust fund.

.91 SBSB had revenue of \$.8 Million in 1991 and held assets of \$.5 Million at March 31, 1991. The financial statements for SBSB are included in the Public Accounts Compendium of Financial Statements at page B 283.

Our Audit Findings

.92 SBSB's financial statements included in the Compendium are reliable. SBSB's rules and procedures to safeguard and control its assets were adequate except it had the same control deficiencies as its successor, the Tripartite Beef Administration Board, which is reported on later in this chapter. SBSB complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

Interest on Trust Funds

.93 SBSB did not pay the interest earned on a trust fund to beneficiaries. The beneficiaries of the fund are the Saskatchewan Agricultural Returns Stabilization Fund, SBSB, producers and truckers/assemblers.

.94 SBSB used the trust fund to allocate the proceeds from the sale of cattle to the respective beneficiaries.

.95 SBSB earned interest on the trust fund and recorded this interest as income of SBSB. In June 1990, SBSB paid its surplus to the Consolidated Fund. A significant amount of the surplus consisted of interest earned on the trust fund over ten years.

.96 The Government of Saskatchewan Accounting and Reporting Manual provides in part:

Third Party Trust Funds are funds where the Province, as a trustee, recognizes an obligation with respect to the use and disposition of the fund assets for those who benefit from the fund operation, and who also have individual claims against fund assets.

Interest and investment earnings on fund moneys are deposited to and form part of the fund, and are available to pay any expenses associated with the operation of the fund.

.97 According to the manual, the net interest earnings of the trust fund after expenses belong to the beneficiaries of the fund.

.98 The laws governing SBSB do not mention interest or an obligation to pay beneficiaries interest on the trust fund. According to our lawyer, the obligation to pay interest to beneficiaries is not dependent on statutes or regulations, but exists at common law.

.99 In our opinion, it would be very difficult, perhaps impossible, to determine the individual beneficiaries of the trust fund at this time because the problem has existed for ten years.

.100 We recommend the Department establish procedures to ensure that in the future the Department pays interest from trust funds to beneficiaries on a timely basis.

**TRIPARTITE BEEF
ADMINISTRATION
BOARD**

.101 The Board manages a tripartite stabilization program for Saskatchewan Beef and Honey producers. The Board began active operations on September 1, 1990. The producers and the federal and provincial government share the insurance premium used to pay stabilization benefits to producers. The Board uses a trust fund to collect producers' premiums. The Board sends these premiums to the Federal Government. The Saskatchewan Beef Stabilization Board managed this Program before September 1, 1990.

.102 The Board had revenue of \$.9 Million for 1991 and held assets of \$2.6 Million at March 31, 1991. The Board also collected and remitted \$2.5 Million to the federal government for insurance premiums. The financial statements of the Board are included in the Public Accounts Compendium of Financial Statements at page B 350.

Our Audit Findings

.103 In our opinion, the financial statements of the Board contained in the Compendium are reliable. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .107 to .110. The Board's rules and procedures to

safeguard and control its assets and the trust funds were adequate except for the following matters.

Directors Need
Timely Information

.104 The Directors are responsible for managing the affairs of the Board. The Directors need to monitor and control management. To monitor and control management properly the Directors need timely financial information.

.105 The Directors did not receive timely financial information from management. For the period September 1, 1990, the date of establishment, to March 31, 1991 management did not provide interim financial statements to the Directors.

.106 In our opinion, the Directors lacked necessary financial information to manage the affairs of the Board.

Board Needs to
Verify Registered
Animals

.107 The Board did not verify the number of feeder/slaughter animals registered by producers in the Tripartite Program.

.108 The Board is Saskatchewan's agent for the Program. Under the Program the Board is responsible for verifying the existence of the animals registered by producers through inspections or other means.

.109 The Board did not have procedures to verify the existence of the number of feeder/slaughter animals registered by producers in the Program. The Board did have procedures to verify the number of cow/calf animals registered by producers and the amount of honey held by producers in the Program.

.110 In our opinion, the Board did not comply with the terms of the Program. Also, because of this control deficiency, the Board does not know if it is paying the correct amount to the Federal Government. As stated earlier, Saskatchewan shares the insurance premium with producers. If the producer's premium is in error so is Saskatchewan's premium.

Chapter 14

Department of Economic Diversification and Trade

	.01 The Department works with business, communities and people to expand and diversify the Saskatchewan economy.
Consolidated Fund	.02 The Department managed Consolidated Fund appropriations and revenues of \$36 Million and \$2 Million respectively. Information about the Department's revenues and appropriations appears in Volume II of the Public Accounts at pages 9, 56 and 63 respectively.
Special Purpose Fund	.03 The Department is also responsible for the Northern Saskatchewan Economic Development Revolving Fund. The financial statements for this Fund are included in the Public Accounts Compendium of Financial Statements at page A 185.
Our Audit Findings	.04 In our opinion, the Department complied with the authorities governing its activities for Consolidated Fund revenues and appropriations as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .06 to .14. The Department's rules and procedures to safeguard and control its Consolidated Fund revenues and appropriations were adequate except for the significant deficiency reported in paragraphs .06 to .10. .05 In our opinion, the financial statements for the Northern Saskatchewan Economic Development Revolving Fund included in the compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate.
Authority to Operate the Community Bond Program	.06 The Department did not establish rules and procedures to ensure it complied with the laws governing the Community Bonds Program. .07 Subsection 31(1) of <i>The Community Bonds Act</i> states: <i>The Minister may designate any employee of the Department to perform any duties and exercise any powers imposed or conferred on the Minister pursuant to this Act and the regulations.</i> .08 Order-in-Council 1045/90 approved each minister's responsibilities pursuant to <i>The Government Organization Act</i>.

According to the Order, the Minister of Economic Diversification and Trade is responsible for *The Community Bonds Act* and regulations.

.09 The Department allowed Saskatchewan Diversification Corporation (SDC) to operate the Program. SDC paid all expenses of the Program.

.10 In our opinion, the Department is responsible for operating the Program. The Department cannot delegate this responsibility. The Department should have obtained an appropriation from the Consolidated Fund to pay for the Program. This process would give the Members of the Legislative Assembly the opportunity to approve the funding for the Program. We also report on this matter in our chapter on the Crown Investments Corporation of Saskatchewan.

.11 In addition, the Department did not establish rules and procedures to ensure SDC complied with the laws governing the Program.

Appropriation
Improperly Applied

.12 The Department made payments to the Saskatchewan Science Centre Inc. totalling \$540,000. The Department charged these payments to an appropriation the Legislative Assembly authorized for another purpose. The Department charged these payments to the appropriation for Payments for Export Development Projects.

.13 Section 6 of *The Appropriation Act* only allows the Department to spend for the purpose contained in the detailed estimates on which the Assembly based the Act.

.14 In our opinion, the Department did not properly voucher or certify these payments to the Saskatchewan Science Centre Inc. Also, the Department applied an appropriation to a purpose not authorized by the legislature.

Chapter 15

Department of Education

Consolidated Fund

.01 The Department managed Consolidated Fund appropriations of \$883 Million and Consolidated Fund revenues of \$30 Million in 1991. Information about the Department's revenues and appropriations appears in Volume II of the Public Accounts pages 9 and 68 respectively. The following is a list of major programs and spending on those programs:

Grants for operating schools	\$362 Million
Grants for universities	184 Million
Payments to Saskatchewan Institute of Applied Science and Technology (SIAST)	73 Million
Grants for constructing schools	69 Million
Payments to Teachers' Superannuation Commission	59 Million
Payments for Student Aid Fund	51 Million
Training programs	16 Million
Grants for libraries and other education agencies	14 Million
Official Minority Language Office	11 Million
Payments to Regional Colleges	8 Million
Other	36 Million

Special Purpose Funds and Agencies

.02 The Department is also responsible for the operations of several crown agencies and special purpose funds. These are:

Carlton Trail Regional College
Correspondence School Revolving Fund
Cumberland Regional College
Cypress Hills Regional College
North West Regional College
Northlands Career College
Parkland Regional College
Prairie West Regional College
Saskatchewan Book Bureau Revolving Fund
Saskatchewan Indian Regional College
SIAST
Southeast Regional College
Student Aid Fund
Teachers' Superannuation Commission

Our Audit Findings

.03 In our opinion, for the Consolidated Fund revenues and appropriations, the Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures were adequate to safeguard and control its Consolidated Fund revenues and appropriations.

.04 In our opinion, the financial statements for the crown agencies and special purpose funds listed above are reliable. The Department and its crown agencies complied with the authorities governing the activities of those agencies and special purpose funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where reported in this chapter. The Department and its crown agencies had adequate rules and procedures to safeguard and control the assets of these agencies and special purpose funds except where reported in this chapter.

**NORTHLANDS
CAREER
COLLEGE**

.05 The Board of the Northland Career College is accountable to the Minister of Education for the management of the College.

.06 The College had revenues of \$7.6 Million for 1990 and assets of \$3.4 Million at June 30, 1990. The financial statements for the College are included in the Public Accounts Compendium of Financial Statements at page A 399.

Our Audit Findings

.07 In our opinion, the College's financial statements included in the Compendium are reliable. The College complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The College had adequate rules and procedures to safeguard and control its assets except for the following significant deficiencies.

**Timely and Accurate
Records Required**

.08 The Board needs timely and accurate financial statements to hold management accountable. Management should have rules and procedures that ensure the timely and accurate preparation of financial statements. We found these rules and procedures were lacking.

.09 The College contracts with its funding agencies to offer specific courses on a cost recovery basis. However, the College does not systematically compare the money it receives from funding agencies to the account used to record the money owing from these agencies. This results in unexplained differences remaining in the account.

.10 At year end this account required significant adjustments to make it accurate. Because this account was inaccurate, interim financial statements prepared from these records were not reliable.

.11 In our opinion, the lack of control procedures to ensure accurate financial statements could result in incorrect decisions by the Board. The lack of control procedures also allows overdue accounts receivable to escape the attention of senior management and the Board.

.12 We also found other accounts of the College were not properly kept. Management has established procedures that require timely balancing of its bank accounts and payroll expenses. We found management was not following its own procedures and these accounts were not being balanced on a timely basis.

.13 When management balanced these accounts they found employee salary advances were not being deducted from later salary cheques. Most of these advances were later recovered except where employees had left the College. The College wrote off \$4,944 of these advances as uncollectible.

**PRAIRIE WEST
REGIONAL
COLLEGE**

.14 The Prairie West Regional College Board is accountable to the Minister of Education for the management of the College.

.15 The College received revenues of \$2.0 Million in 1990. The College had assets of \$.4 Million at June 30, 1990. The financial statements for the College are included in the Public Accounts Compendium of Financial Statements at page A 422.

Our Audit Findings

.16 In our opinion, the financial statements of the College included in the Compendium are reliable. The College complied with the authorities governing its activities as those activities pertain to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The College had adequate rules and procedures to safeguard and control its assets except for the following significant deficiencies.

**Segregation of
Duties**

.17 The College did not adequately segregate the duties of its employees. Segregation of duties is inadequate when one person can conceal errors or fraud.

.18 We found one employee did all the procedures related to revenue, receipts and record keeping.

.19 Accordingly, this person could misapply the College's revenue without timely detection.

**SASKATCHEWAN
INDIAN
REGIONAL
COLLEGE**

.20 The Board of the Saskatchewan Indian Regional College is accountable to the Minister of Education for the management of the College.

.21 The College had revenues of \$6.5 Million for 1990 and assets of \$1.7 Million at June 30, 1990. The financial statements of the College are included in the Public Accounts Compendium of Financial Statements at page A 429.

Our Audit Findings

.22 In our opinion, the financial statements of the College included in the Compendium are reliable. The College had adequate rules and procedures to safeguard and control its assets. The College complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

College Needs to Obey Regional Colleges Act

.23 The College is subject to *The Regional Colleges Act*. The Act requires the members of the Board to be appointed by the Lieutenant Governor-in-Council. The Lieutenant Governor-in-Council had not appointed three persons regularly taking part in Board meetings.

.24 The Act requires the Minister of Education to approve the purchase of term deposits. Term deposits were not approved by the Minister of Education.

.25 The Act requires the Minister of Education to approve the budget for the College before the Board adopts it. The Minister did not approve the budget before adoption by the Board.

.26 We also reported these matters in our 1989 and 1990 annual report. The Standing Committee on Public Accounts considered this matter at a public hearing with the Deputy Minister of Education on January 7, 1992.

.27 The Deputy Minister stated:

The Saskatchewan Indian Institute comes under The Regional Colleges Act but is not funded by the provincial government in any way. It's totally funded by the federal government. So we don't have the same controls. Nor do they recognize the provincial government has the right to require them to conduct themselves in certain ways.

.28 In our opinion, the College should obey the law or the law should be changed to exempt the College for these matters.

STUDENT AID FUND

.29 The Department uses the Fund to finance and account for student loans and other student financial assistance.

.30 The Fund had revenues of \$51.4 Million in 1991. The Fund received \$45.9 Million from the Consolidated Fund and had other revenue of \$5.5 Million in 1991. The Fund held assets of \$96.2 Million and had an accumulated deficit at March 31, 1991 of \$35.5 Million. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 342.

Chapter 15 Department of Education

Our Audit Findings

.31 In our opinion, the financial statements included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except as reported in paragraphs .32 to .50. The Departments rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiencies.

Loan Verification Procedures

.32 In 1991, the Department made student loans of approximately \$37 Million. The Department must ensure persons applying for loans are eligible and receive appropriate assistance. To do this the Department needs to verify the student and financial status of applicants. We found there was insufficient verification of critical information on student loan applications.

.33 Applicants have to provide financial, personal and demographic information to receive a loan. Applicants are responsible to provide accurate information.

.34 Resources and time, limit the Department's ability to verify the information provided by applicants. The Department also must be responsive to applicants' financial needs. As a result, the Department sometimes grants loans in error or in excess of what is permitted by law.

.35 To prevent overpayment, the Department has prepayment screening procedures. Prepayment screening procedures include:

- checking with Saskatchewan Government Insurance to validate vehicle asset information;
- checking with the Department of Health for Saskatchewan residency and accuracy of information on marital status and dependents;
- checking to Department files to verify the applicant's high school graduation date;
- checking parents' income tax forms submitted at the time of application.

The Department uses a computer system to compare the information included on loan applications to that received from these other sources.

.36 In 1991 when the computer system reported information differences, personnel responsible for prepayment audits checked these differences in approximately one out of every five cases reported. For the year ended March 31, 1990, the Department checked only one in twelve cases reported.

.37 The Department also has a post-audit and referral audit system, where it audits certain information after students receive their loans.

.38 In 1991, the Department had an audit group of four persons involved in the prepayment and post-audit function. These persons could not devote all their time to these duties due to work load pressures in the loan assessment and collection areas.

.39 The audit group completed 220 prepayment audits, 249 audits resulting from referrals, 49 asset confirmation audits and 271 earnings confirmation audits. The audit group found many instances where persons received unauthorized benefits. Total loan recoveries or cancellations of \$562,000 resulted from their efforts. The Department has procedures to recover these unauthorized loans.

.40 We have a concern that the Department has not devoted enough resources to verify applicant information. The lack of adequate verification procedures puts public funds at risk. The Department also needs to assure the public that the program is only helping those eligible.

.41 The Department has not done studies to know the amount of ineligible loans. This information is necessary to know if its verification procedures limit the use of public funds for unauthorized purposes to a reasonable amount. We recommend the Department study this matter to determine the extent of unauthorized use of public funds.

.42 We are unable to report the Department complied with the authorities governing the granting of student loans because of a lack of information at the Department to form our opinion.

Lack of Authority to Limit Interest Write-down Subsidies

.43 The Department withheld certain Interest Write-down subsidies for students.

.44 On May 1, 1986, the Government introduced an interest relief program for student assistance loans obtained for courses commencing between May 1, 1986 and July 31, 1989. This program, called "The Interest Relief Program", applied to all students who received either Canada Student Loans or Saskatchewan Student Loans during this period. This program subsidized interest rates to an interest rate of 6%.

.45 When the Department started the program, it explained the program in the Student Guide. The Guide placed no restrictions on the period of the subsidy. In addition, the promissory notes signed by the students did not restrict the period of the subsidy. Accordingly, in our opinion, there is a continuing subsidy during the term of the loan period for students receiving loans during the first year (loans issued from May 1, 1986 to July 31, 1987).

.46 The Department sought legal advice regarding the period of subsidies. The Department wanted to know if the subsidy should be paid over the normal repayment term of the loan or whether it could be paid over some lesser, fixed period.

.47 According to the Department's lawyer if a limited benefit period was not communicated to the students either in the Student Guide, the promissory loan agreements or other form of communication, students may be in a legal position to expect the Department to grant the subsidy for the full term of the loan.

.48 This condition applies only to loans issued in the first year of the Program as the Guide for the next year limits the subsidy period to 36 months.

.49 Contrary to its legal advice, the Department applied Interest Write-down subsidies over a 36 month period on loans issued in 1986/87. The Department informed us it has no legal advice to support this practice.

.50 In our opinion, the Department acted beyond its authority when it limited the interest subsidy period for students who received loans in 1986/87.

**TEACHERS'
SUPERANNUATION
COMMISSION**

.51 The Commission manages the Teachers' Superannuation Fund (Fund), Teachers' Annuity Fund (Annuity Fund) and the Teachers' Voluntary Contributions Fund (Voluntary Fund). The Fund is a defined benefit final average pension plan. The Annuity Fund is a money purchase pension plan. The Commission also uses the Annuity Fund to underwrite annuities for retiring teachers in the money purchase pension plan. The Commission uses the Voluntary Fund to receive voluntary contributions from teachers and to invest those contributions for the teachers.

.52 The Fund received contributions from teachers of \$26.1 Million and from the Minister of Finance of \$38.6 Million in 1990. The Fund held assets of \$767.7 Million at June 30, 1990. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 85.

.53 The Annuity Fund received contributions from teachers and the Minister of Finance of \$18.7 Million in 1990 and held assets of \$151.8 Million at June 30, 1990. The financial statements for the Annuity Fund are included in the Compendium at page A 77.

.54 The Voluntary Fund did not receive any contributions in 1990 and held assets of \$1.5 Million at June 30, 1990. The financial statements for the Voluntary Fund are included in the Public Accounts Compendium of Financial Statements at page A 94.

Our Audit Findings

.55 In our opinion, the financial statements for all three funds are reliable. The Commission had adequate rules and procedures to safeguard and control the assets of the three funds. The Commission complied with the authorities governing the activities of the three funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Uncertainty
Regarding the
Minister of
Finance's
Contributions

.56 *The Teachers' Superannuation Act* does not clearly state the amount the Minister of Finance must pay to the Fund. Accordingly, we are unable to form an opinion that the amount paid by the Minister is the amount required by the law.

.57 Our uncertainty relates to Section 18 of the Act. This section governs the payments the Minister must make to the Fund. Under this section the Minister must pay the Fund an amount equal to the amount contributed by teachers. The Minister also must pay additional amounts to the Fund under this section. The additional amounts the Minister must pay follow.

.58 Subclause 18(1)(a)(i) states:

The Minister of Finance shall cause to be paid into the Teachers' Superannuation Fund sufficient money, as may be required from time to time, to make it possible at all times to pay the allowances granted under this Act or a former Act;....

.59 This subclause is subject to interpretation. It could mean the Minister can pay the exact amount of allowances paid in a year. It also could mean the Minister could pay another amount if the Fund could meet allowances currently due to pensioners. The amount to be paid is also affected by a requirement to maintain a minimum balance of assets in the Fund.

.60 Subclause 18(1)(a)(iii) requires the Minister to pay additional money into the Fund when the assets of the Fund are less than the amount set out in Subsection 14(1) of the Act. The assets cannot be less than the accumulated contributions and interest for teachers who have not yet retired. The assets of the Fund were \$160 Million more than necessary under this subsection at June 30, 1990 (\$177 Million -1989).

.61 The Commission obtained legal advice on this matter in 1986 to ensure it was operating within the law. The Commission's lawyer stated the Act was unclear and should be changed to reflect clearly the intentions of the Legislature.

.62 We reported this matter in our 1987 and 1990 annual reports. We continue to recommend a change to the Act to set out clearly the amount the Minister must pay to the Fund. This

Chapter 15 Department of Education

Fund had a \$1.6 Billion unfunded actuarial liability at June 30, 1989.



Chapter 16

Department of Energy and Mines

	.01 The Department is responsible to promote and develop opportunities for petroleum and mineral industries in the Province. The Department is also responsible for petroleum and mineral taxes.														
Consolidated and Heritage Fund	.02 The Department managed Consolidated and Heritage Fund appropriations of \$15 Million and \$1 Million respectively in 1991. The Department managed Consolidated Fund and Heritage Fund revenues of \$6 Million and \$417 Million respectively in 1991. Information about the appropriations and revenues appears in Volume II of the Public Accounts at pages 9, 56, 80, 204 and 205. The Department also managed a Heritage Fund Investment appropriation of \$97 Million. Information about this appropriation appears at page 50 of Volume I of the Public Accounts. .03 The Department's major tax and royalty revenues follow. <table><tr><td>Oil</td><td>\$283 Million</td></tr><tr><td>Natural gas</td><td>50 Million</td></tr><tr><td>Potash</td><td>50 Million</td></tr><tr><td>Uranium</td><td>19 Million</td></tr><tr><td>Coal</td><td>12 Million</td></tr><tr><td>Mineral Acreage</td><td>6 Million</td></tr><tr><td>Other</td><td>3 Million</td></tr></table>	Oil	\$283 Million	Natural gas	50 Million	Potash	50 Million	Uranium	19 Million	Coal	12 Million	Mineral Acreage	6 Million	Other	3 Million
Oil	\$283 Million														
Natural gas	50 Million														
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Uranium	19 Million														
Coal	12 Million														
Mineral Acreage	6 Million														
Other	3 Million														
Special Purpose Fund	.04 The Department is also responsible to manage the Oil and Gas Environmental Fund. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 220.														
Our Audit Findings	.05 In our opinion, the Department's rules and procedures to safeguard and control its Consolidated Fund and Heritage Fund appropriations and revenues were adequate. The Department complied with the authorities governing its activities for Consolidated Fund and Heritage Fund appropriations and revenues as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .07 to .25. .06 In our opinion, the financial statements for the Oil and Gas Environmental Fund included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate.														

NewGrade Payments
Require Authority

.07 The Department paid \$964,322 to NewGrade Energy Inc. (NewGrade). The Department called this payment "NewGrade Royalty Rebate". The Department used Order-in-Council 7/89 as its authority for the payment. The stated authority to issue this Order is Section 60 of *The Financial Administration Act*.

.08 Section 60 of the Act allows the Lieutenant Governor-in-Council (Cabinet) to remit (forgive) or exempt any person from liability to pay any tax, royalty, rental or fee to the Crown.

.09 The Order authorized the remission of natural gas royalties required by law. The remission was for natural gas supplied to NewGrade and used directly for NewGrade's benefit in the heavy oil upgrader at Regina, subject to the following conditions.

.10 Producers must pay the Department the full amount of royalties due under the law. They also must assign to NewGrade their right to the remissions under this Order. The Department must pay the amount of the remissions to NewGrade for fifteen years or a longer period if NewGrade's debts, guaranteed by the Crown in December 1986, remain unpaid.

.11 In our opinion, the producers' liability to pay royalties was not forgiven because they had to pay the full amount of royalties due under the law. Therefore, the effect of the Order was not a remission to producers but a grant to NewGrade.

.12 In our opinion, Section 60 of the Act gives Cabinet power to remit royalties but not power to make grants. Accordingly, the payment of \$964,322 to NewGrade does not have legislative authority.

.13 The Department believes it has authority to make the payment under Section 60 of the Act.

.14 We also reported this matter in our 1990 annual report.

Settlement Agreement
Requires Authority

.15 On March 30, 1990 the Department signed a settlement agreement with a producer. Under this agreement the Department received \$11 Million as a full and final settlement of an estimated \$18.4 Million due in lieu of royalties owed to the Crown for the years 1979/80 to 1989/90.

.16 We believe this agreement required an Order-in-Council under *The Financial Administration Act* to forgive this royalty.

.17 We discussed this matter with the Department. The Department believes that the agreement did not result in a forgiveness of \$7.4 Million to the producer, but was a settlement of a royalty dispute. Therefore, the Department did not require an Order-in-Council under Section 60 of *The Financial Administration Act*.

.18 Both the Department and our office have legal opinions supporting the respective positions.

.19 The Department's view results in a lack of public accountability for this transaction. Orders-in-Council are public documents and remissions must be disclosed in Public Accounts.

.20 In our opinion, this agreement forgave \$7.4 Million owed to the Crown. Accordingly, the Department required an Order-in-Council to comply with the law.

.21 In addition, the Department did not show it forgave \$7.4 Million in the Public Accounts as required by law.



Chapter 17

Department of Environment and Public Safety

Consolidated Fund	.01 The Department managed appropriations from the Consolidated Fund of \$12.7 Million and \$1.7 Million of Consolidated Fund revenues for 1991. Information about the Department's appropriations and revenues appears in Volume II of the Public Accounts at pages 83 and 9 respectively.
Special Purpose Fund	.02 The Department also managed the Environmental Protection Fund. This Fund had revenue of \$8.1 Million in 1991 and assets of \$4.4 Million at March 31, 1991. The financial statements for the Environmental Protection Fund are included in the Public Accounts Compendium of Financial Statements at page B 176.
Our Audit Findings	.03 In our opinion, the financial statements for the Environmental Protection Fund included in the Compendium are reliable. The rules and procedures used by the Department to safeguard and control its assets were adequate. The Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.
The Fire Prevention Act	.04 The Department did not comply with <i>The Fire Prevention Act, 1980</i>. .05 <i>The Fire Prevention Act, 1980</i> states: <i>22(1) As a contribution to the cost of the fire prevention services provided for in this Act, every company...shall pay to the Minister of Revenue and Financial Services a fee....</i> <i>(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations.</i> .06 The Department pays the cost of administering the Act out of a Consolidated Fund appropriation. It also deposits money received under this Act to the Consolidated Fund. However, when money received is more than the cost of administration, the excess is not set aside. .07 During 1991, revenue collected under Section 22 of the Act was approximately \$1.8 Million and the cost to administer the Act was approximately \$1.1 Million.

.08 The failure to set aside the excess of receipts over costs results in the use of this money for purposes other than those set out in the Act.

.09 As of January 1, 1991 responsibility for the administration of *The Fire Prevention Act, 1980* was transferred from the Minister of Environment and Public Safety to the Minister of Community Services.

.10 Our 1988, 1989 and 1990 annual reports also reported this matter.

.11 The Department advised us in 1989 that a proposed change to the law to correct this problem was submitted to Cabinet for approval.

Chapter 18

Department of Executive Council

Government Wide
Financial Plan
and Statements
Required

.01 There is a need to control expenditures on a government wide basis. The law makes Treasury Board responsible for all the financial affairs of the government including all boards, agencies, corporations and commissions. Treasury Board has limited its direct influence to select organizations.

.02 We found that there was not an agency of government that managed the financial activities of the whole government. Some agencies are accountable to Treasury Board, some are accountable to CIC and others are not seen to be accountable to either of these bodies. All, however, are accountable to a Minister and through the Minister to the Assembly. We were unable to find a financial plan or financial statement for the whole government.

.03 We also found many government agencies do not give the Assembly information about salaries and other payments in the same manner as government departments (e.g., Saskatchewan Power Corporation, South Saskatchewan Hospital Centre, Saskatchewan Crop Insurance Corporation). Also, other government agencies do not give the Assembly any information (e.g., SaskEnergy, Crown Investments Corporation Industrial Interests Inc., Westank Industries Ltd). These government agencies are not publicly accountable for their spending.

.04 In our opinion, there should be an agency of government that manages the financial activities of the whole government. This agency also should ensure all agencies of government provide information to the Assembly that ensures public accountability for spending.

Government Wide
Expenditure
Control Required

.05 In addition, people tend to view government agencies that are not directly influenced by Treasury Board as not part of government. This view can lead to actions that are contrary to the best interests of the government as a whole.

.06 We found the following example where an employee transfer from a government department to a crown corporation was viewed as a termination of employment. In the letter of resignation the employee said that he had accepted a job outside government. The paying department and the employee viewed the transfer to a crown corporation as employment outside government. As a result, the employee received a severance payment of \$97,764 and then went to work for the crown corporation at a greater salary. This crown corporation receives its funds from the Consolidated Fund of the Province the same as the government department.

.07 In our opinion, there should be an agency of government that ensures payments of this nature do not occur. This agency

also should rationalize salaries among all the agencies of government. For example, this agency could determine the relationship of the salary of the Deputy Minister of Health responsible for the delivery of all government health care programs to the President of a government owned hospital.

.08 This agency also could determine the relationship of the salary of the President of the Crown Investments Corporation (CIC) to the Secretary of Treasury Board. Both persons are responsible to make financial recommendations to Cabinet about government agencies under their influence.

Public Accountability
for Employment
Contracts Required

.09 In addition, we note that Bill 18 continues the view that some government agencies are not government. This Bill, recently enacted by the Legislature, requires disclosure of employment contracts for all crown employers except the following health and education employers.

Battlefords Regional Care Centre
Board of Governors, Lakeside Home
Board of Governors, Parkridge Centre
Carlton Trail Regional College
Cumberland Regional College
Cypress Hills Regional College
La Ronge Hospital Board
Northlands Career College
North West Regional College
Palliser Regional Care Centre
Parkland Regional Care Centre
Parkland Regional College
Prairie West Regional College
Regina General Hospital
Royal University Hospital
Saskatchewan Cancer Foundation
Saskatchewan Health Research Board
Saskatchewan Indian Regional College
Souris Valley Regional Care Centre
Southeast Regional College
South Saskatchewan Hospital Centre
Wascana Rehabilitation Centre

.10 The exempted crown employers are accountable to a Minister and through the Minister to the Legislative Assembly the same as all other crown employers. In addition, the funds necessary to operate these crown employers comes from the Consolidated Fund the same as government departments. In our opinion, these crown employers should be as publicly accountable for government spending as all other crown employers.

Chapter 19

Department of Finance

.01 The Department is responsible for the operations of Treasury Board and the management and control of the revenue and expenditure of the Province. It prepares the Estimates, financial statements of the Government and the financial statements for the Consolidated and Heritage Funds. The Department also manages most employee benefit programs and provides services to all other government departments.

Consolidated and Heritage Funds

.02 The Department is responsible to control appropriations from the Consolidated and Heritage Funds and to ensure the receipt of all revenues due to these funds. In addition, the Department manages specific Consolidated Fund appropriations of \$187 Million and public debt expenses of \$1,193 Million. The Department also manages Consolidated Fund revenue of \$4,760 Million including revenue from crown agencies related to public debt of \$719 Million. Information about these Consolidated Fund revenues and appropriations appears in Volume II of the Public Accounts at pages 9, 92 and 98 and Volume I of the Public Accounts at pages 28 and 31.

.03 The Department's major programs and spending are:

Interest on the Public Debt	\$1,193 Million
Employee benefits	111 Million
Mortgage Protection Program	38 Million
Saskatchewan Pension Plan	11 Million
Tax collection expenses	7 Million
Provincial Comptroller	6 Million
Other	14 Million

.04 The Department's major revenue sources are:

Individual Income Tax	\$980 Million
Interest from Crown Agencies	719 Million
Transfers from Government of Canada	
- Equalization	663 Million
- Established Program Financing	371 Million
Sales Taxes	518 Million
Corporation Capital and Income Taxes	180 Million
Fuel Taxes	174 Million
Tobacco Taxes	101 Million

Pension Plans and Special Purpose Funds

.05 The Department was also responsible for the operation of the following pension plans and special purpose funds:

Anti-Tuberculosis League Employees Superannuation Fund
Members of the Legislative Assembly Superannuation Plan
Public Employees Disability Income Fund

Chapter 19 Department of Finance

Public Employees Benefits Agency Revolving Fund
Public Employees Dental Fund
Public Employees (Government Contributory) Annuity Fund
Public Employees (Government Contributory) Superannuation Plan
Public Employees Group Life Insurance Fund
Public Service Superannuation Plan
Saskatchewan Pension Plan
Saskatchewan Transportation Company Employees Superannuation Plan
Sinking Funds

Our Audit Findings

.06 In our opinion, the Government's main financial statements (called the Combined Fund financial statements) were not reliable (see paragraphs .08 to .29). The Consolidated Fund financial statements were reliable except for the matters reported in paragraphs .16 to .22. The Heritage Fund financial statements were reliable. The Department complied with the authorities governing its activities for Consolidated Fund and Heritage Fund revenues and expenses as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .32 to .47. The Department's rules and procedures to safeguard and control Consolidated Fund and Heritage Fund appropriations and revenues were adequate except for the significant deficiencies reported in paragraphs .48 to .55. We also report matters related to Saskatchewan Economic and Financial Position reports, loan guarantees, special warrants and supplementary information for public accounts at paragraphs 56, 60, 66 and 73 respectively.

.07 In our opinion, the financial statements for the plans and funds listed in paragraph .05 were reliable. The Department's and agencies' rules and procedures to safeguard and control the assets of the plans and funds were adequate except where we report otherwise in this Chapter. The Department complied with the authorities governing activities of its plans and funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this Chapter.

Reservation of Opinion on the Government's Financial Statements

.08 Our auditor's report on the Government's financial statements for the year ended March 31, 1991 expresses the opinion that the financial statements do not present fairly the financial position and results of operations of the Government.

.09 Our opinion on the Government's main financial statements follows:

I have audited the combined funds statement of financial position of the Government of the Province of Saskatchewan as at March 31, 1991 and the combined statements of accumulated deficit, of revenue and expenditure, and of changes in financial position for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit following generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation. My assessment and evaluation was based on the recommendations of the Canadian Institute of Chartered Accountants.

These financial statements do not follow accounting principles appropriate for government financial statements. The financial statements do not include all the organizations owned or controlled by the Government. Also, the financial statements do not include sufficient information to provide a clear and full understanding of the financial position and results of operations of the Government. If appropriate accounting principles were followed, the financial statements would be materially different.

In my opinion, because the accounting principles used to prepare these financial statements are inappropriate, these combined financial statements do not present fairly the financial position of the Government of the Province of Saskatchewan as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended.

.10 The following paragraphs explain more fully the reasons for our opinion.

Chapter 19 Department of Finance

Financial Results of Government Organizations Excluded

.11 In our view, these financial statements are the primary financial statements of the Government and, therefore, should provide a summary accounting of the financial affairs and resources for which the Government is responsible. Accordingly, these financial statements should report on all organizations owned or controlled by the Government. These financial statements do not report on all those organizations. As a result, legislators and other readers do not have the information necessary to understand and assess the financial position and results of operations of the Government.

.12 We are not able to determine the precise effect of this matter on the financial statements. The adjustments necessary may be significant. The financial results of approximately ninety additional Government organizations need to be included in the financial statements. The organizations include Government energy, communications and insurance enterprises, Government health and education institutions as well as Government regulatory commissions and boards.

Incomplete Financial Statement Information

.13 In our view, these financial statements should provide a complete accounting and include sufficient information to provide a clear and full understanding of the financial position and results of operations of the Government. These financial statements do not provide a complete accounting or sufficient information.

.14 The financial statements should:

- account for all amounts due (assets) to the Government and all amounts owed (liabilities) by the Government;
- include, as expenditures, asset valuation allowances for doubtful revenue receivables, for unrecoverable loans and for changes in the value of investments;
- report Government expenditures by major program so that spending priorities can be understood, assessed and compared to prior periods. Major programs include health, education, agriculture, social services, natural resource development and transportation;
- report Government expenditures by objects of expenditure so that the amount and type of financial resources required to operate programs can be understood, assessed and compared to prior periods. Objects of expenditure include physical assets, employee salaries and benefits, interest on debt, operating goods and services and transfer payments to other governments and individuals;
- report information to describe the Government's acquired physical assets such as inventories of supplies,

equipment, buildings and highways; and

- report information to describe the Government's material financial commitments such as those for physical asset acquisitions.

.15 In our view, these financial statements do not provide information required by legislators and other readers to understand and assess the financial position and results of operations of the Government. We are not able to determine the precise effect of this incomplete information on the financial statements. The adjustments necessary are significant and much of the information is not available.

Unrecorded Pension
Liabilities

.16 The Government is responsible for the liabilities of several pension plans. The pension liabilities are not recorded in these financial statements. In our view, the pension liabilities should be recorded to present the financial position and results of operations of the Government.

.17 The notes to the financial statements advise that, if pension liabilities are recorded, liabilities and accumulated deficit would be increased by approximately \$2.4 Billion. Because the Government does not have current actuarial projections, we are unable to determine the precise effect of not recording the pension liabilities on the financial statements.

Assets Reported at
Amounts in Excess of
their Value

Saskatchewan Property Management Corporation (SPMC)

.18 These financial statements should record loans as assets only when the loans can be used to discharge the Government's liabilities or finance its future operations. The asset "Loans to Crown Entities" includes amounts due from SPMC totalling \$692.8 Million (1990 - \$554.7 Million). The loans can only be repaid when the Government provides SPMC, a Government organization, the necessary money. Accordingly, the loans are not assets.

.19 In our view, "Loans to Crown Entities" should be reduced by \$692.8 Million (1990 - \$554.7 Million), accumulated deficit should be increased by \$692.8 Million (1990 - \$554.7 Million) and deficit for the year should be increased by \$138.1 Million (1990 - \$169.6 Million).

Crown Investments Corporation of Saskatchewan (CIC)

.20 According to the accounting policies used to prepare these financial statements, loans will be written down when the liabilities of a government organization significantly exceed the estimated realizable value of its assets and any deficit is not funded by an appropriation.

.21 The asset "Loans to Crown Entities" includes loans made through CIC to the Saskatchewan Transportation Company and the Saskatchewan Forest Products Corporation. The Saskatchewan Transportation Company had an accumulated deficit of \$29.4 Million and the Saskatchewan Forest Products Corporation had an accumulated deficit of \$19.8 Million. The accumulated deficits of these two corporations totalling \$49.2 Million are not temporary and represent appropriate evidence that the liabilities of these corporations significantly exceed the estimated realizable value of their assets.

.22 To comply with this policy, loans to CIC should be written down by \$49.2 Million. If the loans were written down, the asset "Loans to Crown Entities" would be decreased by \$49.2 Million and accumulated deficit would be increased by \$49.2 Million.

Other Comments

.23 In our last annual report, we expressed considerable concern with the contents of these financial statements. We also informed Members of the Legislative Assembly that this year we would be assessing these financial statements in the context of the recommendations of the Canadian Institute of Chartered Accountants (CICA). The CICA's recommendations represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum financial statement accounting and reporting standards for governments.

.24 Our general concern is legislators and the public are not provided the financial information required to help them understand and assess the financial position and results of operations of the Government. Our opinion on these financial statements reflects our concern.

.25 Our concerns are not new. Since 1984, we have said the Government should prepare financial statements that show clearly and fully the revenues, expenditures and financial position of the Government. Also in 1984, the Government said they would study the matter.

.26 At that time, standards for financial reporting by governments were still evolving. As a result, we decided to wait until standards became better established and the Government had the necessary time to interpret and apply those standards. The standards are now well established. However, the Government has not changed its reporting practices.

.27 In our view, there is need for a rigorous accounting of the full nature and extent of the financial affairs and resources for which the Government is responsible. The accounting should be presented in accordance with the CICA's recommendations to enhance credibility, and should be presented in a comprehensive yet succinct annual financial report to enhance understandability.

.28 The Department recently prepared revised financial statements for the Government for The Financial Management Review Commission at March 31, 1991. The Department used the accounting principles recommended by the CICA.

.29 We recommend that the Department prepare the Government's financial statements for the year ended March 31, 1992 using CICA's recommended accounting principles.

Reservation of
Opinion on the
Consolidated Fund
Financial Statements

.30 Our auditor's report on the Consolidated Fund also contains a reservation of opinion. We reserved our opinion because of the matters described in paragraphs .16 to .22.

.31 We recommend the Comptroller prepare the Consolidated Fund's financial statements using the accounting principles recommended by the CICA.

Appropriation
Control

.32 In our opinion, *The Financial Administration Act* needs change to ensure Crown agencies return unspent appropriations to the Consolidated Fund.

.33 We found the Agriculture Development Fund requisitioned and received from the Consolidated Fund approximately \$3.4 Million more than required to meet its expenditures for the 1990 fiscal period. This caused us to inquire as to the intent of the Act regarding unspent appropriations for crown agencies. We completed our inquiry too late for our March 31, 1990 annual report.

.34 As at March 31, 1991 the Agriculture Development Fund had requisitioned and received from the Consolidated Fund approximately \$8.5 Million more than required to meet its expenditures.

.35 The Act defines "appropriation" as an amount permitted or directed to be paid from the Consolidated Fund.

.36 Section 34 of the Act states no public money is to be paid out of an appropriation without a requisition and certificate. The certificate, when required, must state that goods were received or services were rendered. However, the Assembly may authorize the payment out of an appropriation with a specific law without a certificate.

.37 The only other requisition for payment permitted out of the Consolidated Fund is an advance under Section 37 of the Act. If an advance is made, it must be accounted for or repaid within 30 days of the end of the fiscal year.

.38 The Department informed us it will pay crown agencies on receipt of a requisition for payment. The Department told us it

does not require a certificate from the agency that goods were received or services were rendered. Also, the Department does not consider these payments to be advances. Therefore, the Department does not require the agency to repay unspent money to the Consolidated Fund at the end of the fiscal year.

.39 We think the Legislative Assembly intended the Executive Government be fully accountable for spending public funds. To do this the Assembly requires the Executive to receive annual approval for its spending. According to law, when a Department has not spent its appropriation for a year, that appropriation is lost. The Department must receive another appropriation to spend money next year.

.40 To ensure proper accountability for public spending we think the law intended when a crown agency has not spent its appropriation for a year, that appropriation should also be lost. The agency should have to get another appropriation to spend money next year.

.41 In our opinion, crown agencies are not properly controlled when they are not required to repay unspent appropriations to the Consolidated Fund at the end of a year.

.42 We recommend a change to the Act to make it clear crown agencies must repay any unspent appropriations to the Consolidated Fund except where an Act specifies otherwise.

Special Warrant
Lacks Authority

.43 We found a special warrant authorized an expenditure that did not meet the conditions required by law.

.44 Order-in-Council 91/179 authorized a special warrant providing for the payment of \$13,600,000 to the Saskatchewan Property Management Corporation (SPMC) from the Consolidated Fund. The Order states the payment was "to provide funding for expenditures related to funding of depreciation on assets".

.45 Depreciation is a non-cash transaction; it does not represent an expenditure of cash. Accordingly, SPMC does not require "funding" for depreciation. Also, during the year, SPMC transferred \$10,000,000 that was surplus to its needs to the Consolidated Fund.

.46 *The Financial Administration Act* places condition on spending by special warrant. One of the conditions is:

- the expenditure is urgently and immediately required for the public good.

.47 In our opinion, this Order-in-Council does not meet the conditions required to order a special warrant. Therefore, in our

Chapter 19 Department of Finance

Comptroller's Revenue Controls

opinion, the Minister should not have presented this special warrant to the Lieutenant Governor.

.48 The Provincial Comptroller has not documented his rules and procedures to supervise the receipt, recording and proper disposition of public money.

.49 Good internal control requires careful supervision by management. In larger organizations, no one manager can have direct personal knowledge of every facet of the organization's activities. Therefore, it is important management monitor the continuing effectiveness of all other controls in the organization.

.50 Section 25 of *The Revenue and Financial Services Act* describes the duties of the Comptroller. The Act provides in part that the Comptroller shall supervise the receipt, recording and proper disposition of public money.

.51 The Comptroller believes the Act makes him responsible for the receipt of all money under the direct supervision of Treasury Board. To discharge that responsibility the Comptroller feels he is responsible to:

- establish standards,
- monitor and evaluate, and where necessary, provide direction or suggestions for improvement in the process, and
- provide assistance to effect changes required.

.52 The Comptroller also believes discretion can be applied where a proper management structure exists within an entity.

.53 The Comptroller has not documented his rules and procedures to fulfil his responsibilities. As a result, we cannot determine whether the Comptroller's rules and procedures are sufficient.

.54 In our opinion, this lack of controls over revenue allows the risk of errors occurring without timely detection.

.55 This matter was reported in our 1986, 1987, 1989, and 1990 annual reports.

SASKATCHEWAN ECONOMIC AND FINANCIAL POSITION

.56 For many years, Ministers of Finance have presented a summary report on Saskatchewan's economic and financial position. In August 1991, the Minister presented the Report. The Department included the Government's financial statements for March 31, 1987 to 1990 and preliminary statements for 1991 in the Report.

.57 The Department marked the preliminary 1991 statements as unaudited. However, the Department did not reproduce our auditor's reports for the years we audited, 1987 to 1990. Our auditor's reports for each of those years contained reservations.

.58 In our opinion, the financial information in the Report for the years 1987 to 1990 is misleading because it does not include our auditor's reports. Readers of the Report need to know we have serious concerns about the financial information in it. The Department informs us it has not reproduced our auditor's reports in previous Reports.

.59 We are associated with all financial statements the law requires us to audit. Therefore, our auditor's reports must be included whenever the Department reproduces those financial statements.

**LOAN
GUARANTEES**

.60 Public money is at risk when the Government guarantees to repay the debts of others. Examples are bank loans to individuals such as Home Improvement Loans guaranteed by the Saskatchewan Housing Corporation and Spring Seeding Loans guaranteed by the Agricultural Credit Corporation of Saskatchewan. In some cases, the Government limits risk by ensuring adequate collateral is taken. For example, most home improvement loans are secured by liens registered against residential properties.

.61 Guarantee programs can result in significant expenditures. Section 41(1)(b) of *The Financial Administration Act* recognizes the need for control over all guarantees and programs of guarantees. It requires departments, boards, commissions or agents of the government to obtain prior approval of the Minister of Finance for loan guarantees or programs of loan guarantees.

.62 Section 38 of *The Financial Administration Act* requires payments on loans guaranteed by the Minister of Finance to be made from the Consolidated Fund. This section also requires public accountability for the expenditure. The Minister must inform the Assembly of the facts connected with payments made.

.63 Not all loans are guaranteed by the Minister of Finance. For example, loans guaranteed under *The Farmers' Counselling and Assistance Act* are guaranteed by the program Chair. The Minister of Agriculture and Food is responsible for the program Chairman. Payments for this program are also made from the Consolidated Fund. However, there is a lack of public accountability for the payment of these loan guarantees. The Minister of Agriculture and Food does not have to give the Assembly the facts for payments made.

.64 In our opinion, the Legislative Assembly should be informed of the facts connected with payments made for loans

guaranteed, regardless of which Minister guaranteed the loan. This would ensure public accountability for the payment of the loans guaranteed.

.65 Also, in our opinion, greater public accountability would result if the law required the Government to include guarantees and programs of guarantees in its fiscal plan. Although these programs may not result in expenditures in the current year, it is important that the Assembly is aware of the potential impact of these programs on the public purse. Also, if the law is changed for guarantees, the law should include a requirement for the Assembly's approval of the amount of the guarantee or program of guarantees.

**SPECIAL
WARRANTS**

.66 Our Office is required to report any cases where a special warrant authorized the payment of public money. In 1990-91, the Government authorized the spending of approximately \$475 Million by special warrant.

.67 In our system of government, it is fundamental that the Executive Government spend only the amounts authorized by the Legislative Assembly. The Assembly, however, recognizes that there may be rare and special circumstances when the Executive will need access to additional moneys not authorized by the Assembly.

.68 *The Financial Administration Act* places the following conditions on spending by special warrant:

- the Legislative Assembly is not in session; and
- the expenditure is urgently and immediately required for the public good; and
- there is no appropriation for the expenditure; or
- the appropriation is exhausted or insufficient.

.69 In our opinion, it is important that this fundamental principle of our system of government be respected. Spending by special warrant should be limited to those rare circumstances when it is not practicable to have the Assembly authorize the additional spending.

.70 The Assembly must judge whether conditions existed that permitted the Executive to spend public money without prior approval.

.71 When the Executive authorizes the spending of public money by special warrant, it is required to include that amount in the next appropriation act.

.72 We report that an Appropriation Act has not approved payments made by authority of special warrants. Lists of these special warrants appear in Volume II of the Public Accounts at pages 10, 11 and 206.

**SUPPLEMENTARY
INFORMATION**

.73 Details of aggregate payments for wages, salaries, employee travel and payments to suppliers are not shown in the Public Accounts on a government-wide basis.

.74 The Standing Committee on Public Accounts, in its April 1975 report, recommended the levels of detail to be shown in the Public Accounts for wages and salaries, payments to suppliers and employee travel. The recommendation for aggregate information stated:

...and that when the aggregate of any person exceeds the limits throughout all departments, this aggregate amount is also to be shown.

.75 In response to this request, the Public Accounts from 1974-75 included a supplementary volume presenting an analysis by payee of payments on a government-wide basis. This volume has not been tabled since 1984.

.76 *The Financial Administration Act* allows Treasury Board to decide the form and content of the Public Accounts. The Board decided to dispense with the supplementary information in the Public Accounts commencing with the 1984/85 fiscal year. It directed the Provincial Comptroller to provide this information as a special report to the Public Accounts Committee, if requested by the Committee.

.77 In June 1991, the Public Accounts Committee considered the contents of the Public Accounts. At that time, the Committee agreed on a number of matters. The Comptroller prepared the 1990-91 Public Accounts to include most of the matters agreed on by the Committee.

.78 The Public Accounts Committee agreed the Public Accounts did not need to provide an aggregate of expenditure by payee across all departments. However, the Committee has not reported to the Assembly on this matter. As a result, the 1975 recommendation of the Committee remains in effect. Until the Assembly agrees to the Committee's June 1991 recommended changes, we will continue to report this matter.

**MEMBERS OF
THE
LEGISLATIVE
ASSEMBLY
SUPERANNUATION
FUND**

.79 The Department manages the Members of the Legislative Assembly Superannuation Fund. The Fund receives contributions from Members and the Consolidated Fund and investment income. The Department uses the money to pay pensions, annuities and administration costs.

.80 The Fund had investment income of \$.6 Million and the Department paid pensions of \$1.6 Million from the Fund in 1991. The Fund held assets of \$7.3 Million at March 31, 1991. The financial statements of the Fund are included in the Public Accounts Compendium of Financial Statements at page A 21.

Our Audit Findings

.81 In our opinion, the financial statements of the Fund included in the Compendium are reliable. The Department had adequate rules and procedures to safeguard the assets of the Fund. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

**Payments Require
Authority**

.82 Section 26.1 of *The Members of the Legislative Assembly Superannuation Act, 1979* states:

Where a person who was a member and:

- a) is entitled to or in receipt of a supplementary monthly allowance pursuant to Section 25, 25.1 or 26; or*
- b) was entitled to a supplementary monthly allowance pursuant to Section 25, 25.1 or 26 that has been discontinued under Section 37.1;*

dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would have been entitled to pursuant to Sections 25, 25.1 and 26 shall be paid to his spouse for life.

.83 Currently, when a member dies while receiving an annual allowance and the supplementary allowance, the spouse's pension is 60% of both the annual allowance (Section 19) and the supplementary allowance (Section 26.1). In the years following the death of a member, the spouse receives 100% of any new annual supplementary allowances granted.

.84 In our opinion, the amounts in excess of the 60% rule paid to surviving spouses is contrary to the law.

.85 In 1989, the Minister responsible for the Fund told us the Department of Finance would seek a change to the law for this matter.

.86 We also reported this matter in previous annual reports.

Annuity Underwriting

.87 The current Act does not direct the Department regarding the handling of profits or losses from underwriting annuities.

.88 The Department underwrites annuities for members and pays these annuities out of the Fund. When annuity contracts are written, money should be set aside to make future payments. Due to uncertainties related to future trends and events such as investment earnings and changes in mortality rates the amount set aside may be insufficient to make future payments.

.89 The law does not specify the source of funding for any future losses. Also, the financial statements of the Fund do not separately show the results of the annuities underwritten.

.90 We have reported this matter in past years. We report this matter again as the number of annuities paid out of the Fund is increasing.

.91 We recommended a change to the law to specify the handling of profits and losses. We also recommend a change to the financial statements to show the results of the annuities underwritten.

.92 In 1989, the Minister responsible for the Act informed us the Department of Finance would seek a change to the law concerning this matter.

**PUBLIC
EMPLOYEES
BENEFITS
AGENCY - PUBLIC
EMPLOYEES
DENTAL FUND**

.93 The Department manages the Public Employees Dental Fund. The Department uses the Fund to receive employer premiums and to pay employee dental claims.

.94 The Fund had revenues of \$4.7 Million in 1990 and assets of \$6.8 Million at December 31, 1990. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 226.

Our Audit Findings

.95 In our opinion, the financial statements included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiencies.

Chapter 19 Department of Finance

Controls Over Dental Claims

.96 The Department has hired an insurance company to make dental claim payments for it. The Department informs the Company whom to pay and how much to pay.

.97 The Department has established procedures to ensure the Company pays only authorized persons and pays the correct amount. However, the Department did not follow those procedures on a timely basis.

.98 Also, the Department is unable to rely on the Company's computer controls to replace its own controls because the Department does not know if the Company has controls. The Department has not received an independent audit verifying the Company has adequate controls.

.99 As a result, if the Company makes unauthorized or incorrect payments, the Department would not find out on a timely basis.

.100 We also reported this matter in our 1989 and 1990 annual reports.

PUBLIC EMPLOYEES BENEFITS AGENCY - PUBLIC EMPLOYEES REVOLVING FUND

.101 The Department manages the Public Employees Benefits Agency Revolving Fund. The Department uses the Fund to finance and account for the administration costs of the Public Employees Benefits Agency.

.102 The Fund had revenue of \$2.0 Million in 1991 and assets of \$.2 Million at March 31, 1991. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 194.

Our Audit Findings

.103 In our opinion, the financial statements for the Fund included in the Compendium are reliable. The Department complied with the authorities governing the operation of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraph .105. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiency.

Timely Financial Statements Required

.104 The Department did not keep the Fund's accounting records current. Accounting records should be kept current to ensure their integrity and to manage the activities of the Fund.

.105 In addition, Section AR 1010 of the Treasury Board Accounting and Reporting Manual requires the Department to submit quarterly financial statements to Treasury Board. The Department could not prepare quarterly financial statements

because it did not keep the accounting records current.

.106 In our opinion, the failure to prepare timely financial statements impairs the Department's ability to manage the affairs of the Fund.

**PUBLIC
EMPLOYEES
BENEFITS
AGENCY - PUBLIC
SERVICE
SUPERANNUATION
BOARD**

.107 The Department manages the Public Service Superannuation Plan for the Public Service Superannuation Board. The Plan has two funds, the Saskatchewan Transportation Company Employees Superannuation Fund and the Anti-Tuberculosis League Employees Superannuation Fund. The plan is a defined benefit pension plan.

.108 The revenues and expenses of the Public Service Superannuation Plan are revenues and expenses of the Consolidated Fund. However, the contributions and pensions of STC and Anti-Tuberculosis employees are handled through separate funds.

.109 The plan had combined employee contributions of \$10 Million and paid pensions of \$74 Million in 1991. The two separate funds had assets of \$21.5 Million at March 31, 1991. The financial statements are included in the Public Accounts Compendium of Financial Statements at pages A 1, A 49 and A 70.

Our Audit Findings

.110 In our opinion, the financial statements included in the Compendium are reliable. The Department's rules and procedures to safeguard and control the assets of the Plan were adequate. The Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Public Accountability

.111 The law required the Board to give the Legislative Assembly its 1990 annual report by May 1, 1991. The Board did not give its 1990 annual report to the Assembly on time. The Assembly received the Board's 1990 report on December 5, 1991.

.112 In our opinion, the delay in submitting the annual report impaired the Board's public accountability for the 1990 operations of the Plan.

**PUBLIC
EMPLOYEES
(Government
Contributory)
SUPERANNUATION
PLAN
SUPERVISORY
BOARD**

.113 The Supervisory Board is responsible for the Public Employees (Government Contributory) Superannuation Fund. The Board uses this Fund for a money accumulation pension plan. The Board receives employee and employer contributions and invests the contributions. Retiring employees use the money accumulated for them to purchase an annuity from the Board or elsewhere. The Board also manages the Public Employees (Government Contributory) Annuity Fund. The Board uses this Fund to underwrite the annuities for retiring employees. The Department of Finance manages the day to day affairs of the Funds.

.114 The Superannuation Fund received \$50.3 Million in contributions in 1991 and held assets of \$683.6 Million at March 31, 1991. The Annuity Fund did \$3.5 Million in new annuity business in 1991 and held assets of \$14.3 Million at March 31, 1991. At March 31, 1991 the Annuity Fund had accumulated losses of \$2.1 Million from annuity underwriting. The financial statements for the Funds are included in the Public Accounts Compendium of Financial Statements at pages A 37 and A 42.

Our Audit Findings

.115 In our opinion, the financial statements for the Funds included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .116 to .120. The Department's rules and procedures to safeguard and control the assets of the Funds were adequate except for the following significant deficiencies.

Public Accountability

.116 Our 1990 annual report states as of March 8, 1991 we had not completed our audits of the Funds for the year ended March 31, 1990.

.117 Our audits for 1990 and 1991 are now complete. In our opinion, the accounts were not faithfully and properly kept to permit the timely preparation of the 1990 financial statements.

.118 The law required the Board to give its 1990 annual report to the Legislative Assembly by May 1, 1991.

.119 The Assembly received the report on December 5, 1991.

.120 In our opinion, the delay in submitting the annual report impaired the Board's public accountability for its 1990 operations of the Funds.

**Timely Financial
Statements Required**

.121 We also found the Department did not keep its records current in 1991. The Department could not prepare timely

monthly financial statements because the records were not current. As a result, the Board and senior management were unable to review and approve monthly financial statements.

.122 This deficiency impairs the ability of the Board or the Department to correct any errors or problems that might be found from a review of the monthly reports. As a result, the stewardship responsibilities assigned by law cannot be properly and faithfully discharged.

Current Policy and
Procedures Manuals

.123 The Department should have a complete and current policy and procedures manual for the operation of these Funds. This manual will help ensure all employees have a clear understanding of their duties.

.124 There is no complete and current policy and procedures manual. A procedures manual prepared several years ago exists, but this manual is incomplete. It does not contain all important internal control objectives. It also does not reflect recent changes in staff responsibilities and changes in activities of the Board.

.125 This deficiency allows errors to occur because employees may not be aware of their duties and responsibilities.

.126 We reported this matter in our 1990 annual report.

Chapter 20

Department of Health

Consolidated Fund

.01 The Department managed Consolidated Fund appropriations of \$1,531 Million and Consolidated Fund revenues of \$26 Million in 1991. Information about the Department's appropriation and revenues appear in Volume II of the Public Accounts at pages 100 and 9 respectively. The following is a list of major programs and spending on those programs.

Hospital Services	\$704 Million
Doctors Services	278 Million
Home and Special Care Services	255 Million
Prescription Drugs	91 Million
Mental Health Services	33 Million
Payment to Cancer Foundation	24 Million
Other	146 Million

Special Purpose Funds and Agencies

.02 The Department is also responsible for the operations of several crown agencies and special purpose funds. These are:

Battlefords Regional Care Centre
Board of Governors, Lakeside Home
Board of Governors, Parkridge Centre
Hospital Laundry Services of Regina
La Ronge Hospital Board
Palliser Regional Care Centre
Parkland Regional Care Centre
Regina General Hospital
Royal University Hospital
Saskatchewan Alcohol and Drug Abuse Commission
Saskatchewan Cancer Foundation
Saskatchewan Health Research Board
Saskatchewan Prescription Drug Fund
Saskatoon Health Services Authority
Souris Valley Regional Care Centre
South Saskatchewan Hospital Centre
St. Louis Alcoholism Rehabilitation Centre
Wascana Rehabilitation Centre
Whitespruce Youth Treatment Centre

Our Audit Findings

.03 In our opinion, for the Consolidated Fund revenues and appropriations, the Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures were adequate to safeguard and control its Consolidated Fund appropriations and revenues.

.04 In our opinion, the financial statements for the crown agencies and special purpose fund listed above are reliable except

where reported in this chapter. The Department and its crown agencies complied with the authorities governing the activities of those agencies and special purpose fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where reported in this chapter. The Department and its crown agencies had adequate rules and procedures to safeguard and control the assets of these agencies and special purpose fund except where reported in this chapter.

**BOARD OF
GOVERNORS
LAKESIDE HOME**

.05 The Board of Governors, Lakeside Home manages a long term care facility located in Wolseley. The Home provides level 2, 3 and 4 care to about 80 residents.

.06 The Board had revenues of \$2.6 Million in 1991 and held assets of \$.4 Million at March 31, 1991. The financial statements of the Board are included in the Public Accounts Compendium of Financial Statements at page A 232.

Our Audit Findings

.07 In our opinion, the Board's financial statements included in the Compendium are reliable. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .11 to .12. The Board's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

**Controls Over
Payments**

.08 We found the Board did not comply with its own rules and procedures to ensure proper verification of payments. This deficiency could result in incorrect payments or incorrect recording of payments.

.09 The deficiency allowed the Board to overpay the Receiver General for Canada \$21,988 for employees' deductions. The Board did not properly balance the required employees' deductions to payments already made to the Receiver General for Canada for these deductions.

.10 The Board has since recovered this overpayment.

Public Accountability

.11 The law requires the Board to prepare an annual report and report to the Legislative Assembly by a specific date. The Board was late in giving its 1990 report to the Assembly.

.12 The Assembly received the Board's 1990 annual report on May 29, 1991. The Assembly should have received this report by May 1, 1991.

**LA RONGE
HOSPITAL BOARD**

.13 The Board manages a 28 bed hospital in La Ronge.

.14 The Board had revenue of \$2.0 Million in 1991 and held assets of \$.6 Million at March 31, 1991. The financial statements for the Board are included in the Public Accounts Compendium of Financial Statements at page A 261.

Our Audit Findings

.15 In our opinion, the financial statements of the Board included in the Compendium are reliable. The Board's rules and procedures to safeguard and control its assets were adequate. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Public Accountability

.16 The law requires the Board to give an annual report to the Legislative Assembly by a specific date. The Assembly required the Board's 1990 annual report by May 1, 1991.

.17 The Assembly received the 1990 annual report on December 19, 1991. In our opinion, the delay in making the Board's annual report public impaired its public accountability for the 1990 operation of the hospital.

Reservation of
Opinion

.18 We reported last year that at March 8, 1991 our audit of the Board for the year ended March 31, 1990 was not complete. Our audit for 1990 is now complete.

.19 *The Provincial Auditor Act* requires us to give details of any reservation of opinion in an audit report. Our opinion on the Board's 1990 financial statements contained a reservation of opinion.

.20 The report reads as follows:

I have examined the balance sheet of the La Ronge Hospital Board as at March 31, 1990 and the statements of operations, unappropriated equity and changes in financial position for the four month period then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Inventory acquired from La Ronge Hospital Association was substantially valued on an estimated basis at the beginning of the period (See note 7). An estimate was performed because arrangements

to transfer operations from the Association to the La Ronge Hospital Board were not finalized until after November 30, 1989. For this reason, inventory acquired at the beginning of the period was not substantially determined by actual count and valuation in accordance with the stated accounting policy nor was I able to satisfy myself concerning those physical quantities and the valuation by alternative means. Accordingly, since opening inventories enter into the determination of the results of operations, changes in financial position and unappropriated equity, I was unable to determine whether adjustments to related expenses, deficit for the year, opening unappropriated equity and funds provided from operations might be necessary.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to verify opening inventory quantities and values, as described in the preceding paragraph, the statements of operations, unappropriated equity and changes in financial position present fairly the results of operations and the changes in financial position of the La Ronge Hospital Board for the period ended March 31, 1990 in accordance with the accounting policies described in Note 2 to the financial statements. Further, in my opinion, the balance sheet presents fairly the financial position of the La Ronge Hospital Board as at March 31, 1990 in accordance with the accounting policies described in Note 2 to the financial statements.

.21 Our report advises the reader the 1990 financial statements were reliable except for the effect on the financial statements of the inventory on hand at the beginning of the period. We were not able to verify the inventory because management estimated the inventory rather than making an actual determination.

**SOURIS VALLEY
REGIONAL CARE
CENTRE**

.22 The Centre is a 300 bed level IV care facility located in Weyburn.

.23 The Centre had revenue of \$14.7 Million in 1991 and held assets of \$3.3 Million at March 31, 1991. The financial statements for the Centre are included in the Public Accounts Compendium of Financial Statements at page A 303.

Our Audit Findings

.24 The financial statements of the Centre included in the Compendium are reliable. The Centre complied with the authorities governing its activities as those activities relate to its

financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .28 to .30. The Centre's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

Records Need to be
Complete and
Accurate

.25 The Centre did not have procedures to ensure transactions were accurately and completely recorded. We found significant unrecorded transactions. Accordingly, the financial statements management prepared were incorrect.

.26 When we informed management about the errors, they corrected the accounting records and prepared correct financial statements.

.27 In our opinion, the accounts were not properly kept and did not allow for the preparation of accurate financial statements. Accordingly, the interim financial information prepared for the Board was not reliable. Inaccurate financial information can lead to incorrect decisions.

Public Accountability

.28 The law requires the Centre to give an annual report to the Legislative Assembly. The annual report must include the audited financial statements.

.29 The Centre's 1990 annual report to the Legislative Assembly included unaudited financial statements. The Assembly received this report on April 19, 1991.

.30 In our opinion, the Centre did not comply with Section 35.7 of *The Housing and Special-care Homes Act*. Also, when the Assembly receives financial statements without our audit report, Members of the Assembly do not know if the financial statements are reliable.

**WASCANA
REHABILITATION
CENTRE**

.31 The Centre delivers health care programs for persons with physical or mental disabilities. The Centre provides intensive rehabilitation and extended care services.

.32 The Centre had revenue of \$28 Million in 1991 and had assets of \$61.2 Million at March 31, 1991. The financial statements for the Centre are included in the Public Accounts Compendium of Financial Statements at page A 342.

Our Audit Findings

.33 In our opinion, the Centre's financial statements included in the Compendium are reliable. The Centre's rules and procedures to safeguard and control its assets were adequate. The Centre complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets,

revenue raising, spending, borrowing and investing except for the following matter.

Appointment of
Board of Directors

.34 The Orders-in-Council that appoint the Board of Directors specify terms of appointment. At the time of our audit, several Board members' terms of appointment had expired and they were awaiting appointment of successors. For the Chair, the term of appointment had been expired for over a year.

.35 In our opinion, the Department should ensure there is a properly appointed Board with authority to conduct the affairs of the Centre.

Chapter 21

Department of Justice

.01 The Department is responsible for the administration of justice, police services and adult corrections in the Province. The Department is also responsible for registry systems for corporations, and real and personal property in the Province.

Consolidated Fund

.02 The Department managed Consolidated Fund appropriations and revenues in 1991 of \$153 Million and \$44 Million respectively. Information about these revenues and appropriations appears in Volume II of Public Accounts at pages 9 and 134 respectively.

.03 The following is a list of major programs and spending.

Police services	\$52 Million
Corrections	40 Million
Courts	22 Million
Payments to Saskatchewan Property Management Corporation	14 Million
Registry services	6 Million
Other	19 Million

Special Purpose Funds

.04 The Department is also responsible for the operations of several trust and special purpose funds. The funds are:

Agricultural Implements Board
Assurance Fund
Correctional Facilities Industries Revolving Fund
Judges of the Provincial Court Superannuation Plan
Law Reform Commission of Saskatchewan
Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Public Trustee for Saskatchewan
Queens Printer Revolving Fund
Trust accounts for courts, local registrars and sheriffs
Victims' Fund

Our Audit Findings

.05 In our opinion, the Department's rules and procedures to safeguard and control its Consolidated Fund appropriations and revenues were adequate except for the significant deficiencies reported in paragraphs .07 to .15. The Department complied with the authorities governing its Consolidated Fund appropriations and revenues as its activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .16 to .38.

.06 In our opinion, the financial statements provided for the funds listed in paragraph .04 were reliable. The Department had

adequate rules and procedures to safeguard and control the assets of these funds except where we report otherwise in this chapter. The Department complied with the authorities governing the activities of these funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where we report otherwise in this chapter.

Internal Audit

.07 The Department did not have an approved operating and reporting policy for its internal audit function.

.08 The Department is decentralized. Regional offices are responsible to collect revenue and comply with the law and the Department's rules and procedures. Regional offices include Correction Centres, Provincial Courts, Land Title Offices, Sheriff Offices, and Local Registrar Offices.

.09 In November 1988, the Department established an internal audit function. The Internal Auditor carried out several audits of regional offices since 1988 and prepared reports for management on the results.

.10 The Department developed a draft operating and reporting policy for the Internal Auditor. The draft policy for reporting states the Internal Auditor should discuss reports with responsible officials. Once the Auditor issues his report the draft policy requires responsible officials to respond and address any issues reported.

.11 During 1991, we found the Auditor's letter accompanying his reports stated officials did not have to reply to the report, pending approval of the draft internal audit policy. Also, the Auditor did not require officials to address issues reported.

.12 In our opinion, the lack of an approved operating and reporting policy for the Internal Auditor could result in officials not addressing significant issues on a timely basis.

.13 The Department informed us it has recently adopted an operating and reporting policy for the Internal Auditor.

Contingency Plan

.14 The Department does not have an approved and tested contingency plan that ensures continued operations if a major loss or destruction of records occurs. Accordingly, the Department may not be able to continue to operate in a timely and effective manner if a major loss or destruction of records occurs.

.15 The Department informed us it is working on a contingency plan.

Payments Lack
Authority

.16 We could not determine if payments of \$384,462 and \$146,439 made by the Department were, in their entirety, a proper charge to the Department's appropriation.

.17 Section 552 of the Financial Administration Manual (FAM) issued by the Department of Finance provides guidance for controlling contractual payments. Part .04 recommends departments get a written contract when:

- iii) *the dollar amount of the contract exceeds \$5,000;*
- iv) *the service provided is complex or is delivered in stages.*

.18 FAM also provides guidance for the following minimum terms to be in a written contract:

- iii) *A detailed description of the services.*
- v) *The time period within which the goods and services are provided.*
- vi) *The price for the goods and services.*
- vii) *The terms of payment. (ie. legal billing name, progress payments, real start date, completion of certain phases, completion date, after completion, upon acceptance of a report, etc.).*

.19 The Department paid \$384,462 in December, 1990 to a Firm of Chartered Accountants. The Department made a further payment of \$146,439 to the Firm in October, 1991. The Department made payments based on the Firm's statement of fees addressed to the Government of Saskatchewan, c/o Crown Investments Corporation of Saskatchewan. The statement showed two accounts rendered; April 27, 1990 for \$146,439 and September 28, 1990 for \$384,462. The Firm did not provide details of services rendered on the statement.

.20 We asked the Department to provide details of services provided. The Department provided bills from the Firm.

.21 The billing for the \$384,462 payment stated:

Interim billing for professional services from April 1, 1990 to September 22, 1990 relating to the investigation of the Saskatchewan Transportation Company. These services are pursuant to the letter of direction from the Honourable George McLeod dated February 19, 1990 and pursuant to instructions from the Honourable Mr. McLeod to

report to the Commission of Inquiry headed by the Honourable Russell Brownridge.

.22 The billing for the \$146,439 payment stated:

Interim billing to March 24, 1990 for professional services relating to the investigation of Saskatchewan Transportation Company pursuant to the letter of direction from the Honourable George McLeod dated February 19, 1990 and our engagement letter of March 14, 1990.

.23 Both bills also provided a weekly log of activities carried out by the Firm.

.24 We obtained the following information from the Department and other sources.

.25 The letter of direction referred to in paragraph 21 engaged the Firm to undertake a review of the management systems and procedures at the Saskatchewan Transportation Company (STC).

.26 Order-in-Council 267/90 (Cabinet) appointed the Commission referred to in paragraph .21. Cabinet authorized the Commission to carry out an inquiry into certain matters relating to operations of STC as set out in the Order.

.27 The Commission, by letter of March 26, 1990 to the Minister, requested his approval for the Firm to co-operate fully with the Commission Counsel and for the Firm to table its report as part of the Inquiry. The letter also states the Commission Counsel may want to have further inquiries made or services performed by the Firm. The Minister by letter of March 29, 1990 agreed with this request.

.28 The Department believes the services as listed on the Firm's log of activities were for the Commission of Inquiry based on the arrangement in paragraph .27. Accordingly, the Department believes these payments were a proper charge to the Department's appropriation.

.29 A judgement of the Saskatchewan Court of Queen's Bench dated September 14, 1990 declared that the Inquiry was ultra vires the Government of Saskatchewan. A judgement of this Court dated September 4, 1991 authorized the Department to release the Firm's report to our Office.

.30 These judgements provided additional information about the engagement of the Firm by the Minister and his subsequent instruction to the Firm to co-operate fully with the Commission Counsel.

.31 The judgement of September 14, 1990 states the mandate of the Firm appears to be broader than that of the Commission.

.32 The judgement of September 4, 1991 states:

. . .that although the Firm was directed by the Minister to table its report with the Commission, the Firm was not employed by, nor part of, the Commission. . .

. . .that the Firm's report was never in fact tabled with the Commission. . .

. . .that the agreed statement of facts recites that on June 20, 1990 the Commission Counsel advised the Firm to base their report solely on their review of the Company's records and interviews conducted by the Firm. . .

.33 In our view, the information from the judgements confirms that the Minister, not the Commission, engaged the Firm. The Department has authority to make payments only for those services carried out for the Commission.

.34 The Department did not have a written contract prepared according to the FAM. Such a contract would allow us to assess the billing and log of activities from the Firm.

.35 Accordingly, we could not determine from the Department's records if the services billed by the Firm were Commission expenses or STC expenses. We believe the Department should have had a written contract with STC. We report in our chapter on STC in paragraphs .164 to .174 that approximately \$150,000 to \$175,000 of the bill belongs to STC.

Controls Over
Revenue

.36 The Department did not comply with the FAM guidelines for the receipt and deposit of public money. The Department needs to protect public money against loss.

.37 Section 410 of the FAM requires all money received to be recorded immediately upon receipt. It also requires that employees, responsible for accounting for money, do not have access to the money, and that employees deposit money daily if the amount for deposit exceeds \$500.

.38 We found the Department did not record money received at its Court Services Branch immediately upon receipt. Further, the employee responsible for accounting for money had access to the money and did not deposit the money daily. There were delays in depositing money for periods up to one month.

Chapter 21 Department of Justice

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND

.39 The Department manages the Correctional Facilities Industries Revolving Fund. The Department uses the Fund to finance work programs for inmates to reduce the costs of operating, maintaining and repairing correctional facilities.

.40 The Fund had revenues of \$.8 Million in 1991, and assets of \$.6 Million at March 31, 1991. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 162.

Our Audit Findings

.41 In our opinion, the financial statements of the Fund included in the Compendium are reliable. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant deficiency.

Segregation of Duties

.42 The Department did not adequately segregate the duties of the employees at the Regina facility. Segregation of duties is inadequate when one person can conceal an error or fraud.

.43 One employee recorded sales, opened the mail, handled cash, prepared deposits and kept all the accounting records.

.44 As a result, cash could be misapplied without timely detection.

.45 We also reported this matter in our 1990 annual report.

VICTIMS' FUND

.46 The Department of Justice manages The Victims' Fund. This Fund receives revenues from surcharges applied to fines. The Department uses the revenue to pay administration costs and aid victims of crime.

.47 The Fund received \$2.3 Million in revenue during 1991 and had assets of \$2.7 Million at March 31, 1991. The financial statements for the Fund appear in the Public Accounts Compendium of Financial Statements page B 355.

Our Audit Findings

.48 In our opinion, the financial statements of the Fund included in the Compendium are reliable. The Department complied with the authorities governing the activities of this Fund as those activities apply to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures to safeguard and control the assets of the Fund were adequate except for the following significant matter.

Organization
Structure
Required

.49 The Department did not adequately assign authority and responsibility for the management of the Fund.

.50 To properly safeguard and control the assets of the Fund, authority and responsibility for all actions must be clearly assigned to specific individuals or branches. The assigned authority and responsibility should ensure completed transactions are properly summarized and reported to an immediate supervisor and to management. The person or persons responsible for the operations of the Fund must review financial reports, budget variance analyses, exception listings, etc.

.51 The Department did not establish an organization structure for the Fund that assigned authority and responsibility for its operation. Therefore, no individual or branch within the Department was responsible to ensure proper management of the Fund. Accordingly, since no individual or branch was responsible for the Fund's operations, there was no total supervision of its operations.

.52 We also reported this matter in our 1990 annual report.



Chapter 22

Department of Parks and Renewable Resources

Consolidated Fund

.01 The Department managed Consolidated Fund appropriations and revenues of \$88 Million and \$14 Million respectively. Information about the Department's Consolidated Fund revenues and appropriations appears in Volume II of the Public Accounts at pages 9 and 152 respectively.

Special Purpose Funds and Crown Agency

.02 The Department is also responsible for the management of several special purpose funds and a crown agency. These are:

Commercial Revolving Fund
Resource Protection and Development Revolving Fund
Saskatchewan Wetland Conservation Corporation
Fish and Wildlife Development Fund
Forest Renewal and Development Fund

Our Audit Findings

.03 In our opinion, for the Consolidated Fund revenues and appropriations, the Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department's rules and procedures were adequate to safeguard and control its Consolidated Fund appropriations and revenues.

.04 In our opinion, the financial statements for the crown agency and special purpose funds listed above are reliable. The Department and its crown agency complied with the authorities governing the activities of the agency and special purpose funds as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where reported in this chapter. The Department and its crown agency had adequate rules and procedures to safeguard and control the assets of the agency and special purpose funds except where reported in this chapter.

COMMERCIAL REVOLVING FUND

.05 The Department manages the Commercial Revolving Fund. The Department uses this Fund to finance and account for the Commercial operation of government-owned parks and renewable resources.

.06 The Fund had revenue of \$6.7 Million in 1991 and had assets of \$2.3 Million at March 31, 1991. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page A 148.

Our Audit Findings

.07 In our opinion, the financial statements included in the Compendium are reliable. The Department complied with the

authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for certain lease agreements (see paragraphs .13 to .18). The Department had adequate rules and procedures to safeguard and control the assets of the Fund except for the following significant deficiency.

Supervision of
Employees

.08 The Department did not keep accurate accounts that would permit the preparation of accurate financial statements.

.09 We reported last year that the Department's rules and procedures to ensure the proper authorization of transactions was lacking. We reported the Department had incorrectly recorded the sale of a building for \$150,000 as revenue of the Fund.

.10 During 1991, the Department incorrectly recorded this transaction again as revenue of the Fund. The March 31, 1991 financial statements for the Fund presented to us for audit contained this error.

.11 We discussed this error with management. They corrected the financial statements for the Fund.

.12 In our opinion, the Department should exercise more supervision over the transactions authorized for recording in the Fund's accounts.

Rental Collection
Required

.13 We reported in paragraph .07 the Department did not comply with the terms of certain lease agreements.

.14 In 1987, Orders-in-Council approved lease agreements for the Duck Mountain, Cypress Hills and Moose Mountain Provincial Parks. The lease agreements allowed private operation of government and privately owned rental accommodations.

.15 Order-in-Council 90/1081 changed these lease agreements. It reduced the lease payments on these agreements effective April 1, 1990. However, we found that the Department reduced the lease payments effective April 1, 1989 rather than April 1, 1990.

.16 In September 1991, after we completed our audit, Order-in-Council 792/91 corrected this matter. This Order-in-Council changed the lease agreements so the reduced fees became effective April 1, 1989.

.17 Lessees' withheld rent until agreements were changed. After the lease agreements were changed, the Department allowed the lessees to pay their arrears totalling \$80,000 over a three year period commencing June, 1991. The lease agreements require lease payments to be made promptly.

.18 In our opinion, the Department did not properly comply with the terms of the lease agreements.

**FISH AND
WILDLIFE
DEVELOPMENT
FUND**

.19 The Department manages the Fish and Wildlife Development Fund. The Department uses the Fund for fish enhancement projects and for preventing the reduction of wildlife habitat.

.20 The Fund had revenue of \$2.7 Million in 1991 and had assets of \$11 Million at March 31, 1991. The financial statements for the Fund are included in the Public Accounts Compendium of Financial Statements at page B 185.

Our Audit Findings

.21 In our opinion, the financial statements of the Fund included in the Compendium are reliable. The Department had adequate rules and procedures to safeguard the assets of the Fund. The Department complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Public Accountability

.22 The Department is required by law to give the Fund's financial statements to the Legislative Assembly. The Department gave the Fund's 1990 annual report to the Assembly. However, the annual report did not include the audited financial statements.

.23 The Department's failure to give the Assembly the Fund's 1990 audited financial statements impaired the Department's public accountability for the Fund's operations.



Chapter 23

Department of Social Services

Consolidated Fund

.01 The Department managed Consolidated Fund appropriations of \$367 Million and Consolidated Fund revenues from the Federal Government of \$165 Million in 1991. The following is a list of major programs and spending on those programs.

Saskatchewan Assistance Plan	\$191 Million
Community Living	39 Million
Child care & Children services	38 Million
Regional operations	29 Million
Family services	11 Million
Young offenders	11 Million
Family Income Plan	6 Million
Other	42 Million

Special Purpose Fund and Crown Agency

.02 The Department is also responsible for the operation of a special purpose fund and a crown agency. These are:

Saskatchewan Legal Aid Commission
Social Services Central Trust Account

Our Audit Findings

.03 In our opinion, for the Consolidated Fund revenues and appropriations, the Department complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .09 to .13. The Department's rules and procedures were adequate to safeguard and control its Consolidated Fund appropriations and revenues except for the significant deficiency reported in paragraphs .05 to .08.

.04 In our opinion, the financial statements for the crown agency and special purpose fund listed above are reliable. The Department and its crown agency complied with the authorities governing the activities of that agency and special purpose fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing. The Department and its crown agency had adequate rules and procedures to safeguard and control the assets of that agency and special purpose fund.

Contingency Plan

.05 The Department uses computers to keep most of its records. The Department should have a written and tested contingency plan that ensures it can operate in the event of a major loss or destruction of computer processing capability. The Department must be able to recover and reconstruct critical records.

.06 The Department does not have a written and tested plan to ensure continued operation in the event of a major loss or destruction of computer processing capability.

.07 The Department may not be able to continue to operate in a timely and effective manner if a major loss or destruction occurs.

.08 We reported this matter in our 1990 annual report.

Skills Development
Program Requires
Authority

.09 The Department administers the Saskatchewan Skills Development Program under *The Department of Social Services Act*.

.10 We found the Program was not established by regulation as required by Section 19 of the Act. Therefore, the Department did not have authority to make payments under the Program.

.11 In our opinion, payments totalling \$6 Million made under this Program were without authority.

.12 The Department informed us they are drafting regulations to resolve this problem.

.13 We reported this matter in our 1990 annual report.

Chapter 24

Family Foundation

Consolidated Fund	.01 The Foundation managed Consolidated Fund appropriations of \$4.7 Million in 1991. Information about the Department's appropriations appears in Volume II of the Public Accounts at page 89.
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Crown Agencies	.02 The Foundation is also responsible for a number of crown agencies. A list of those agencies follows.
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Future Corporation
New Careers Corporation
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Centre of the Arts
Saskatchewan Heritage Foundation
Western Development Museum

The Foundation is also responsible for the public money managed by Sask Sport Inc.

Our Audit Findings	.03 In our opinion, the Foundation's rules and procedures were adequate to safeguard and control its Consolidated Fund appropriations and revenues. The Foundation complied with the authorities governing its Consolidated Fund appropriations and revenues as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .05 to .08.
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.04 In our opinion, the financial statements for the agencies listed above are reliable except where reported in this chapter. The agencies complied with the authorities governing the activities of the agencies listed above as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except where reported in this chapter. The agencies listed above had adequate rules and procedures to safeguard and control the assets of these agencies except where reported in this chapter.

Appropriation Required	.05 Sask Sport Inc., on direction from the Minister of the Family, paid \$1.5 Million to the Saskatchewan Arts Board, a government agency.
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.06 The Minister should have directed payment of the money from Sask Sport Inc. to the Consolidated Fund to comply with Section 25 of *The Financial Administration Act*. The Act requires the Department to credit all revenue to the Consolidated Fund unless the Legislative Assembly directs otherwise. In this case the Assembly has not directed otherwise. Also, under *The*

Chapter 24 Family Foundation

Interprovincial Lotteries Act, 1984 the Minister can only direct payments to a non-profit corporation. Saskatchewan Arts Board is not a non-profit corporation.

.07 In our opinion, the Foundation did not comply with the law regarding the \$1.5 Million received from Sask Sport Inc.

.08 Also, it is important the Foundation follow the required process in paragraph .06. This process gives the Assembly the opportunity to approve the funding for the Saskatchewan Arts Board.

SASK SPORT INC.

.09 In the past, we did not audit the lottery money Sask Sport Inc. manages for the Government.

.10 Recent events related to our audit of the Crown Investments Corporation of Saskatchewan and the Community Bond Program caused us to reconsider our responsibilities for Sask Sport Inc.

.11 We sought advice from our lawyer. He confirmed the lottery money held by Sask Sport Inc. for the Government is public money. *The Provincial Auditor Act* requires us to audit this money.

.12 We will audit Sask Sport Inc. and report the results in our next annual report.

SASKATCHEWAN ARTS BOARD

.13 The Board fosters the development of the professional arts and artistic pursuits that enrich the lives of the people of Saskatchewan.

.14 The Board had revenues of \$3.5 Million in 1991 and held assets of \$1.9 Million at March 31, 1991. \$.3 Million of the Board's assets was equipment and furnishings. The financial statements for the Board are included in the Public Accounts Compendium of Financial Statements at page B 267.

Our Audit Findings

.15 In our opinion, the financial statements for the Board included in the Compendium are reliable. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .20 to .25. The Board's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

Equipment Records Required

.16 The Board did not have records to know what equipment and furnishings it owned.

.17 The Board needs to keep records for these assets. Also, the Board should examine the equipment and furnishings periodically and compare the assets to the records to ensure their continued existence and use.

.18 In our opinion, the failure to keep records of the equipment and furnishings could result in a loss of these assets without detection.

.19 We discussed this matter with management. Management agreed with our concern and are preparing records of the Board's equipment and furnishings.

Payment Lacks
Authority

.20 In our opinion, the termination of employment of the former Executive Director of the Board and the retirement allowance paid on termination lacked authority.

.21 In 1985, Order-in-Council 1314/85 appointed this person as the Executive Director of the Board.

.22 Section 16 of *The Interpretation Act* states when a person is appointed by an Order-in-Council, another Order is required to change or end the person's appointment.

.23 In December 1990, the Board of Directors approved the terms of a settlement contract and payment of a retirement allowance for the Executive Director's resignation.

.24 The Board of Directors authorized the Chairman and Vice-Chairman to enter into the settlement contract for the Board. However, they did not have an Order-in-Council to authorize the termination of the Executive Director or the payment of the retirement allowance.

.25 In August 1991, another Order appointed a new Executive Director and ended the appointment of the previous Executive Director. However, this Order did not authorize the retirement allowance paid.

**SASKATCHEWAN
CENTRE OF THE
ARTS**

.26 The Centre is a multi-purpose facility used to enhance the quality of life of the people of Saskatchewan.

.27 The Centre had revenue of \$2.2 Million in 1991 and had assets of \$.8 Million at March 31, 1991. Management did not complete the financial statements for the Centre in time to be included in the Public Accounts Compendium of Financial Statements. Management delayed completion in order to change the way the Centre accounts for capital assets.

Chapter 24 Family Foundation

Our Audit Findings

.28 In our opinion, the financial statements of the Centre are reliable. The Centre's rules and procedures to safeguard and control the assets of the Centre were adequate. The Centre complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

Borrowing Requires Authority

.29 *The Financial Administration Act* requires the Centre to have the Minister of Finance's approval before borrowing any money.

.30 In September of 1990, the Centre borrowed approximately \$250,000 for the purchase of a new lighting system and box office system. The Centre did not have Minister of Finance approval.

.31 In our opinion, the Centre did not comply with *The Financial Administration Act*.

Public Accountability

.32 The law required the Centre to give its report to the Assembly by December 20, 1991. We reported in paragraph .27 that management delayed the financial statements. Accordingly, the Centre could not report to the Assembly by the required date.

.33 In our opinion, the delay in making its annual report public impaired the Centre's public accountability for its operations.

SASKATCHEWAN HERITAGE FOUNDATION

.34 The Saskatchewan Heritage Foundation (SHF) provides financial support for community-based heritage projects that conserve, restore, develop and interpret heritage resources.

.35 SHF had revenue of \$149,329 for 1991 and had assets of \$149,085 at March 31, 1991. The financial statements for SHF are included in the Public Accounts Compendium of Financial Statements at page B 113.

Our Audit Findings

.36 In our opinion, the financial statements for SHF included in the Compendium are reliable. SHF complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matter reported in paragraphs .37 to .40. SHF's rules and procedures to safeguard and control its assets were adequate except for the following significant deficiency.

Board of Directors Required

.37 The Board of Directors of SHF is responsible to manage SHF's affairs. SHF commenced operations on February 18, 1991. At March 31, 1991 there was no Board of Directors to manage

Chapter 24 Family Foundation

SHF.

.38 Order-in-Council 369/91 dated April 30, 1991 appointed the first members of the Board of Directors.

.39 Section 8(2) of the Act states:

The Board shall manage the affairs and business of the corporation.

.40 In our opinion, to comply with the law a Board of Directors should have been appointed when SHF commenced operations. Also, without a Board of Directors there was a lack of control over managements activities.

WESTERN DEVELOPMENT MUSEUMS

.41 The Museum collects, restores and displays historic artifacts at several locations in the Province.

.42 The Museum had revenues of \$1.9 Million in 1991 and held assets of \$11.3 Million at March 31, 1991. The Museum's financial statements were delayed and missed the date for inclusion in the Public Accounts Compendium of Financial Statements (see paragraph .43).

Our Audit Findings

.43 On October 21, 1991, the Museum's financial statements were sent to Treasury Board for financial statement format approval as required by law. Treasury Board also received a copy of our draft auditor's report on the Museum's financial statements. Treasury Board has not yet approved the Museum's financial statements.

.44 The Museum's rules and procedures to safeguard and control its assets were adequate. The Museum complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Public Accountability

.45 The law required the Museum to give its report to the Assembly by December 20, 1991. We reported in paragraph .43 that the statements were delayed. Accordingly, the Museum could not report to the Assembly by the required date.

.46 In our opinion, the delay in making its annual report public impaired the Museum's public accountability for its operations.



Chapter 25

Investment Corporation of Saskatchewan

.01 The Investment Corporation of Saskatchewan (ICS) acts as the investment manager for several Government pension funds and crown agencies.

.02 *The Investment Management Provisions Act* came into force June 1, 1988. It permits certain government pension funds and crown agencies to contract for investment management services.

.03 ICS was incorporated under *The Business Corporations Act* of Saskatchewan to satisfy the need for professional investment management services. Its shareholders are government pension funds and crown agencies.

Ability to Discharge Our Duties

.04 Our lawyer has advised us ICS is a crown agency. Therefore, it is subject to an audit under *The Provincial Auditor Act*.

.05 ICS has legal advice that it is not subject to an audit under *The Provincial Auditor Act*. ICS believes it is an independent competitive investment counsel, not a crown agency.

.06 There is a conflict of interpretation between two legislative schemes. *The Provincial Auditor Act* governs the public accountability of crown agencies to the Legislative Assembly. *The Investment Provisions Amendment Act* permits government pension funds and crown agencies to obtain independent professional investment services.

.07 Because ICS believes it is not a crown agency, it has not permitted us to discharge our duties to audit ICS for the years ended December 31, 1988, 1989 and 1990.

.08 As the Premier requested in his June 6, 1989 memorandum, we referred this problem to the Secretary of Treasury Board on July 26, 1990.

.09 To find out if there was any progress on this matter we wrote to the Secretary of Treasury Board in November, 1991 and to the Premier in January, 1992. The Premier informed us that the matter is now with the Minister of Finance for review.

.10 At the date of this report, we cannot discharge our duties to audit ICS.

.11 If it is the Legislative Assembly's intent that we should not audit ICS, we recommend a change to the law to make that intention clear.



Chapter 26

Liquor Board Superannuation Commission

.01 The Commission is responsible for the Liquor Board Superannuation Plan. The Department of Finance conducts the day to day business of the Plan. The Plan receives employee and employer contributions and invests the money. The money is used to pay pension benefits. The Plan is a defined benefit pension plan.

.02 The Plan received \$1.2 Million in contributions in 1990 and held assets of \$11 Million at December 31, 1990. The financial statements for the Plan are included in the Public Accounts Compendium of Financial Statements at page A 15.

Our Audit Findings

.03 In our opinion, the financial statements of the Plan are reliable. The Commission's rules and procedures to safeguard and control the assets of the Plan were adequate. The Commission complied with the authorities governing the activities of the Plan as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Public Accountability

.04 The law requires the Commission to give its annual report to the Legislative Assembly by a specified date. The Commission was late in giving its 1989 and 1990 annual reports to the Assembly.

.05 The law required the Commission to give its 1989 report to the Assembly in April 1990. The Assembly received the 1989 annual report on May 2, 1991. The law required the Commission to give its 1990 annual report to the Assembly on May 1, 1991. The Assembly received the 1990 report on December 5, 1991.

.06 The delay in making these annual reports public impaired the Commission's public accountability for the operation of the Plan.



Chapter 27

Municipal Employees Superannuation Commission

.01 The Commission manages the Municipal Employees Superannuation Fund. The Commission uses the Fund to finance a defined benefit plan, a money accumulation plan, a supplementary benefits plan and it underwrites annuities for retiring persons in the money accumulation plan.

.02 The Fund received contributions of \$15.1 Million in 1990 and held assets of \$293 Million at December 31, 1990. The Commission wrote annuity contracts in the amount of \$2.7 Million in 1990 and at December 31, 1990 had accumulated losses on annuity underwriting of \$3.5 Million. The Commission's financial statements are included in the Public Accounts Compendium of Financial Statements at page A 29.

Our Audit Findings

.03 In our opinion, the financial statements for the Fund included in the Compendium are reliable. The Commission's rules and procedures to safeguard and control the assets of the Fund were adequate. The Commission complied with the authorities governing the activities of the Fund as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Public Accountability

.04 The law required the Commission to give its 1990 annual report to the Assembly by May 1, 1991. The Commission was late in giving its report to the Assembly. The Assembly received the 1990 annual report on December 5, 1991.

.05 In our opinion, the delay in making the 1990 annual report public impaired the Commission's public accountability for its operation of the Fund.



Chapter 28

Public Service Commission

.01 The Commission serves as the central human resource agency for the Saskatchewan public service. It provides many human resource services including appointing and classifying public servants.

.02 The Public Service Commission managed Consolidated Fund appropriations of \$9.9 Million in 1991. Information about the Commission's appropriations and revenues is included in Volume II of the Public Accounts at pages 164 and 9 respectively.

Our Audit Findings

.03 In our opinion, the Commission's rules and procedures to safeguard and control its appropriations were adequate. The Commission complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Employment Contracts do not Agree with Orders- in-Council

.04 Salaries and benefits contained in employment contracts for Deputy Ministers and Associate Deputy Ministers do not agree with the terms set out in the Orders-in-Council used to make the appointments.

.05 According to Section 17 of *The Public Service Act*, there are two methods to appoint persons to full-time positions in the unclassified service (Deputy Ministers and Associate Deputy Ministers are in the unclassified service). Persons may be appointed by the Lieutenant Governor-in-Council (Cabinet) or they may be appointed in a manner directed by Cabinet.

.06 Order-in-Council 1063/84 establishes a process for appointing persons to the unclassified division of the public service. For Deputy Ministers and Associate Deputy Ministers, it states the Commission Chairman may make these appointments on the recommendation of the President of the Executive Council (Premier) and subject to the Premier's terms and conditions.

.07 *The Public Service Act* requires Cabinet to make the appointment when a person, who is not already employed in the public service, is to be appointed a Deputy Minister or Associate Deputy Minister. In each case, the appointment Order is to describe the authorized salaries and employment benefits.

.08 On several occasions, immediately after Cabinet's appointment, the Chairman "reappointed" the person to the same position following the process established by Order-in-Council 1063/84. The "reappointments" were subject to the terms and conditions prescribed by the Premier. These terms and conditions were different from those of the original appointment Order and

were not disclosed in the original Order-in-Council.

.09 Order-in-Council 1063/84 creates a complex legal question about the extent of Cabinet's delegation of power of appointment to the Chairman.

.10 According to the Commission's lawyer, the Chairman can "reappoint" Deputy Ministers and Associate Deputy Ministers to the same position following the process in Order-in-Council 1063/84. The "reappointments" would be subject to the terms and conditions prescribed by the Premier. These terms and conditions may be different from those prescribed by Cabinet.

.11 According to our lawyer, the Chairman can only appoint a person to a position if there is a vacancy in that position. The original Order-in-Council filled the vacancy for an indefinite term subject to the provisions of *The Public Service Act*. Unless the position becomes vacant, no reappointment can be made. The only way the position can become vacant is if the incumbent resigns, dies or is dismissed. According to the Order, if a person continues to be a member of the public service, it is not open to the Chairman to appoint that person to the unvacated position.

.12 The power to vary the terms of appointment of a public officer appointed by Cabinet resides with Cabinet according to Section 16 of *The Interpretation Act* which provides:

Words authorizing the appointment of a public officer or functionary include the power:

- a) *of removing or suspending him;*
- b) *of reappointing or reinstating him;...*
- e) *of fixing his remuneration and varying or terminating it;*

in the discretion of the authority in whom power of appointment is vested.

.13 In our opinion, once Cabinet appoints a person, only Cabinet can reappoint or vary the terms of that person's appointment.

.14 We recommend Cabinet approve intended compensation packages in the Orders-in-Council authorizing the appointment of persons to positions in the unclassified service.

.15 On January 8, 1992 the Government repealed Order-in-Council 1063/84.

Chapter 29

Saskatchewan Economic Development Corporation

.01 The Corporation (SEDCO) provides a variety of financial and property services to business. It helps develop and diversify the provincial economy to create jobs for the people of Saskatchewan.

.02 SEDCO had revenues of \$20.8 Million in 1990 and held assets of \$ 252.5 Million at December 31, 1990. At December 31, 1990 SEDCO had \$162 Million in outstanding loans to businesses and it had property holdings of \$84 Million. SEDCO's financial statements are included in its annual report.

Our Audit Findings

.03 In our opinion, SEDCO's financial statements are reliable. SEDCO's rules and procedures to safeguard and control its assets were adequate. SEDCO complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Loan Requires Authority

.04 Section 22 of *The Industrial Development Act* requires SEDCO to get an Order-in-Council to give financial assistance greater than \$2,500,000 to any company.

.05 During the year, SEDCO added the overdue interest on a company's outstanding loan to the principal amount of that loan. The new principal amount of the loan exceeded the amount approved by a previous Order-in-Council by approximately \$200,000.



Chapter 30

Saskatchewan Housing Corporation

.01 The Corporation (SHC) promotes, carries out construction and provides more adequate and improved housing for disadvantaged persons. It also improves the quality of housing and the quality of amenities related to housing for disadvantaged persons.

.02 SHC had revenues of \$136.3 Million in 1990 and held assets of \$360.1 Million at December 31, 1990. The financial statements for SHC are included in the Public Accounts Compendium of Financial Statements at page B 117.

Appointed Auditor's Report

.03 We reported in our 1990 annual report that at March 8, 1991 we had not completed our audit of SHC for the year ended December 31, 1989.

.04 We have now completed our audits for 1989 and 1990. We found we could rely on the appointed auditor's 1989 and 1990 reports on SHC's financial statements. We also found we could rely on the appointed auditor's 1989 and 1990 reports on SHC's internal controls.

.05 We could not rely on the appointed auditor's 1989 and 1990 reports on compliance with authorities because the appointed auditor did not report on the matter described in paragraphs .08 to .12.

.06 The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our responsibilities. The reporting or non-reporting of the matter in paragraphs .08 to .12 is subject to judgement.

Our Audit Findings

.07 In our opinion, the financial statements of SHC included in the Compendium are reliable. SHC's rules and procedures to safeguard and control its assets were adequate. SHC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Lack of Authority for Home Improvement Plan

.08 In 1986, SHC introduced the Home Improvement Plan. The Plan gives financial assistance to homeowners for improving their properties. Homeowners could receive a grant and a loan guarantee with an interest subsidy.

.09 Section 13 of *The Saskatchewan Housing Corporation Act* states that:

The objects of the corporation are:

- (a) to promote and carry out the construction and provision of more adequate and improved housing:*
 - i) for low income families and individuals;*
 - ii) for students;*
 - iii) for such elderly person or class or classes of elderly persons as may be designated by the corporation;*
 - iv) for families and individuals receiving social allowances or social assistance; and*
 - v) generally, for persons or groups which in the opinion of the corporation require assistance;*
- (b) to improve the quality of housing; and*
- (c) to improve the quality of amenities related to housing*

.10 In our opinion, Section 13 of the Act does not extend to SHC power to improve the quality of housing and the quality of amenities related to housing generally. The Act restricts SHC's powers to housing for those disadvantaged groups or persons described in subsection 13(a). Accordingly, in our opinion, payments made under the Plan lack authority.

.11 SHC believed it had authority to operate the Plan.

.12 Both SHC and our office have legal advice supporting the respective positions.

.13 We also reported this matter in our 1989 annual report.

.14 We recommend a change to the Act to clarify this matter.

Chapter 31

Saskatchewan Liquor Board and Liquor Licensing Commission

.01 The Board markets and controls the distribution of liquor in the Province.

.02 The Board had revenue of \$296 Million in 1991 and held assets at March 31, 1991 of \$100 Million. The financial statements for the Board are included in the Public Accounts Compendium of Financial Statements at page B 321.

Our Audit Findings

.03 The financial statements of the Board included in the Compendium are reliable. The Board's rules and procedures to safeguard and control its assets were adequate. The Board complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Payments Require Authority

.04 Section 16 of *The Interpretation Act* states in part:

16(1) words authorizing the appointment of a public officer or functionary include the power:

(e) of fixing his remuneration and expenses and varying or terminating them;

in the discretion of the authority in whom power of appointment is vested.

.05 *The Alcohol Control Act* was proclaimed January 2, 1989. The Act continued the Board as a body corporate and continued the appointment of its Chairman. An Order-in-Council appointed the Chairman.

.06 After completing a study, the Board changed its management structure and management pay. The Minister-in-Charge signed a memorandum specifying the Chairman's pay as \$119,600 per year effective July 1, 1989.

.07 In our opinion, *The Interpretation Act* requires an Order-in-Council to set the Chairman's pay.

.08 Order 371/87 appointed the Chairman and fixed the pay as \$60,000. Order 793/90 confirmed the appointment and this pay.

.09 In our opinion, the Chairman's pay in excess of the amount specified in Order 371/87 lacked legislative authority.

.10 We also reported this matter in our 1989 and 1990 annual reports.



Chapter 32

Saskatchewan Power Corporation

.01 The Corporation (SPC) delivers electrical energy for the Province.

.02 SPC had revenues of \$675 Million in 1990 and held assets of \$2,769 Million at December 31, 1990. The financial statements for SPC are included in its annual report.

Our Audit Findings

.03 In our opinion, SPC's financial statements included in its annual report are reliable except for the matter reported in paragraphs .22 to .24. SPC's rules and procedures to safeguard and control its assets were adequate. SPC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matters.

Authority for the Sale of the Natural Gas Business

.04 In May 1988, SPC created the Saskatchewan Energy Corporation (SaskEnergy) under *The Business Corporations Act*.

.05 On June 1, 1988 SPC sold its natural gas assets to SaskEnergy. The assets sold represent almost all the natural gas business of SPC. Order-in-Council 1089/89 approved this sale. The Order called for SPC to appoint SaskEnergy as its agent for SPC's exclusive right to supply, transport, distribute and sell natural gas in Saskatchewan as provided in *The Power Corporation Act*.

.06 On December 31, 1989, SPC sold SaskEnergy to the Crown Investments Corporation of Saskatchewan (CIC). Order-in-Council 1091/89 approved this sale.

.07 We questioned SPC's authority to sell its natural gas business. Our concern was the effect the sale may have on the accountability of SPC for the natural gas business. This caused us to ask our lawyer for an opinion on this matter.

.08 According to our lawyer, the scheme and object of *The Power Corporation Act* is to establish a corporation with the exclusive mandate to supply, transport, distribute and sell electrical energy and gas in the areas of the Province stated in Section 38 of the Act. It is the clear legislative intent that this mandate is the exclusive right and duty of SPC and there is no power in the Act for SPC to abrogate (relieve itself of) its mandate by selling its natural gas business.

.09 Also, according to our lawyer, based on the terms of the sale agreement, SaskEnergy is carrying on the natural gas business for itself and not for SPC. Accordingly, SaskEnergy is not an

agent of SPC.

.10 Our lawyer also expresses the opinion SPC is a creation of the Legislature not the Executive Government and therefore, the power to delegate its authority as agent of the Crown must be found in the Act. The only power to delegate any part of SPC's mandate, found in the Act, is in subsection 2 of Section 38. But, that subsection does not allow the sale of the entire natural gas business of SPC.

.11 SPC consulted with two lawyers. SPC and its lawyers believe SPC has authority to sell the natural gas business. SPC believes it is within SPC's authority to sell the natural gas assets to SaskEnergy and later to sell SaskEnergy to CIC, with approval of the Lieutenant Governor-in-Council.

.12 In our opinion, the Executive Government cannot make SaskEnergy an agent of SPC by Order-in-Council. Accordingly, we are unable to conclude SPC had adequate legislative authority respecting the sale of its natural gas business to SaskEnergy and the later sale of SaskEnergy to CIC.

.13 We believe when the Legislative Assembly enacts laws giving the Executive Government powers it does so with a view of ensuring the Executive is publicly accountable for those powers. Currently, SaskEnergy is not directly accountable to the Assembly for this monopoly.

.14 Therefore, if SaskEnergy is going to operate the natural gas business we recommend a change to the Act. Any new legislation should ensure the accountability of SaskEnergy to the Assembly is similar to that of SPC.

.15 We also reported this matter in our 1990 annual report.

Authority for
Producers Directly
Supplying Gas for
Consumers

.16 During the audit of the Department of Energy and Mines, we found natural gas producers supplied gas directly to consumers and billed them directly. The producers paid a charge to a SaskEnergy subsidiary company for use of that company's transportation system for delivery of gas to consumers.

.17 By law, SPC may consent to someone else supplying gas "in any specified area" (Section 38(2) of the Act). SPC has consented to natural gas producers supplying gas directly to individual consumers. However, according to our lawyer, the statutory provision relied upon does not permit SPC to delegate the right to supply particular consumers but only all consumers in specific geographic areas. The clear intent of this provision is to permit others to supply gas or electrical power only where SPC does not have the ready ability to do so.

.18 SPC has consulted with two lawyers. SPC and its lawyers believe SPC has authority to allow natural gas producers to supply individual consumers.

.19 We are unable to conclude SPC has the legislative authority to consent to the supply and sale of natural gas to individual consumers.

.20 Therefore, if SPC is going to consent to the supply and sale of natural gas to individual consumers we recommend a change to the Act.

.21 We also reported this matter in our 1990 annual report.

Reservation in Our
Auditor's Report

.22 *The Provincial Auditor Act* requires us to give details of any reservation of opinion made in our auditor's report.

.23 Our opinion on the financial statements of SPC for the year ended December 31, 1990 contains a reservation. Our opinion on these financial statements follows:

Effective December 31, 1989, the Corporation sold its investment in a wholly owned subsidiary to Crown Investments Corporation of Saskatchewan and recorded an extraordinary gain amounting to \$226 million. As the investment was sold to a related party, in my opinion the gain should have been recorded as an equity advance. Had the gain been recorded as an equity advance, retained earnings at the end of the year would have been reduced by \$226 million, and equity advances would have been increased by \$226 million.

In my opinion, except for the inclusion in retained earnings of the gain on sale of an investment as referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

.24 Our opinion states SPC should not have included the gain of \$226 Million from the sale of SaskEnergy to CIC in retained earnings because CIC is a related party. The \$226 Million should have been recorded as an equity advance.

.25 We also reported this matter in our 1990 annual report.

Appointed Auditor's
Report

.26 We relied on the report of the appointed auditor compiled in Appendix II, except for the matters in paragraph 27.

.27 The appointed auditor's report does not refer to the authority of SPC to sell its natural gas business to SaskEnergy, to sell SaskEnergy to CIC, or to allow natural gas producers to supply gas directly to individual consumers.

.28 *The Provincial Auditor Act* requires us to conduct additional audit procedures when we are unable to rely on the report of an appointed auditor.

.29 Since the matters were of a legal nature, the additional audit procedures consisted of seeking legal advice and discussing issues with SPC.

Chapter 33

Saskatchewan Property Management Corporation

.01 The Corporation (SPMC) provides services, accommodation and facilities to government departments and public agencies. SPMC also provides capital property financing.

.02 SPMC had revenues of \$244.9 Million for 1991 and held assets of \$1,231 Million at March 31, 1991. SPMC's financial statements are included in the Public Accounts Compendium of Financial Statements at page B 125.

Appointed Auditor's Report

.03 We audit the accounts of SPMC through an appointed auditor. We relied on the appointed auditor's reports on internal control and compliance with authorities. We did not rely on the appointed auditor's report on SPMC's financial statements.

.04 In our opinion, the appointed auditor's report on SPMC's financial statements included in the Compendium is inappropriate. The appointed auditor should have issued a reservation of opinion for SPMC's failure to account for its furniture properly.

.05 *The Provincial Auditor Act* requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor. The appointed auditor's procedures were sufficient to allow us to form our opinions. Therefore, we did not have to conduct additional audit procedures to discharge our responsibility.

Our Audit Findings

.06 In our opinion, SPMC's financial statements included in the Compendium were reliable except for the furniture matter reported in paragraphs .12 to .21. SPMC's rules and procedures to safeguard and control its assets were adequate. SPMC complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the following matter.

Revenue Improperly Retained

.07 SPMC retained money from the sale of surplus assets that belongs to the Consolidated Fund.

.08 Section 9 of *The Purchasing Act* requires money received from the sale of surplus assets to be deposited into the Consolidated Fund if they were purchased from money appropriated from the Consolidated Fund.

.09 SPMC collected \$134,000 during the year ended March 31, 1991, (1990 - \$240,000) from the sale of surplus assets purchased from money appropriated from the Consolidated Fund. SPMC paid the \$134,000 collected for 1991 to the Consolidated Fund on April 10, 1991.

.10 However, as we reported in our 1990 annual report SPMC has improperly retained \$1,545,000 of revenue due to the Consolidated Fund for the period April 1, 1987 to March 31, 1990. SPMC has also improperly recorded this money as revenue in its financial statements.

.11 We reported in our 1990 annual report that management informed us that SPMC and the Departments of Finance and Justice are working to resolve the problem.

Furniture Not
Recorded

.12 During 1986 and 1987 SPMC received all capital assets previously administered by the Department of Supply and Services. These capital assets include real estate, vehicles, aircraft, computer equipment, furniture, fixtures, fittings and incidental office equipment.

.13 These are the capital assets used by all government departments and several agencies throughout the Province.

.14 Except for furniture, fixtures, fittings and incidental office equipment (furniture) SPMC appropriately valued all capital assets at fair market value.

.15 SPMC did not record the furniture transferred to it. According to management, SPMC did not record these capital assets because they are not significant to SPMC's operations.

.16 Management bases its position on an analysis of the estimated cost of furniture purchases over the ten year period to March 31, 1990. Management applied depreciation at 10% per annum to these estimated furniture purchases. Management compared the value of furniture as calculated above to the value of the furniture disclosed in the financial statements at March 31, 1990. The difference was \$1.9 Million which management considered was not material to the financial statements.

.17 We believe the furniture transferred to SPMC is significant.

.18 According to SPMC's records, the 1985 cost of providing furniture for an employee is between \$500 to \$8,600 depending on staff level. In 1986/87 there were about 13,500 employees.

.19 In our opinion, this information shows that the value of furniture transferred to SPMC is significant. We cannot determine the precise value of this furniture because of the lack of detailed records of the furniture on hand.

.20 In our opinion, the policy of not recording furniture is not in accordance with generally accepted accounting principles.

Reservation in Our
Auditor's Report

.21 *The Provincial Auditor Act* requires us to report any reservation of opinion in an audit report. Our opinion on SPMC's 1991 financial statements follows:

Effective April 1, 1987 all furniture previously administered by government departments and certain agencies was transferred to the Corporation. Management did not record these assets in the financial statements. Generally accepted accounting principles require that fixed assets be recorded at depreciated historical cost, or if this information is not available, at fair value. The corporation does not have detailed records of its furniture. Accordingly, I was unable to determine the effects of adjustments to depreciation expense, net income, retained earnings and fixed assets if furniture had been accounted for under generally accepted accounting principles.

In my opinion, except that furniture was not recorded as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chapter 34

Saskatchewan Telecommunications

	.01 The Corporation (SaskTel) provides local and long distance voice, data image and text services to the people of Saskatchewan. .02 SaskTel had revenues of \$574.5 Million for 1990 and held assets of \$1,166 Million at December 31, 1990. SaskTel's annual report includes its financial statements.
Appointed Auditor's Report	.03 We audit the accounts of SaskTel through an appointed auditor. We relied on that auditor's reports on internal control and compliance with authorities. We did not rely on the appointed auditor's report on SaskTel's financial statements. .04 We are unable to form an opinion on SaskTel's investment in Westbridge Computer Corporation (Westbridge). .05 <i>The Provincial Auditor Act</i> requires us to conduct additional procedures when we cannot rely on an appointed auditor's report. We were unable to do additional procedures because Westbridge is no longer a Crown-controlled corporation.
Our Audit Findings	.06 In our opinion, SaskTel's financial statements were reliable except that we were unable to find enough evidence for us to form an opinion on the value of SaskTel's investment in Westbridge as reported in paragraphs .07 to .16. SaskTel's rules and procedures to safeguard and control its assets were adequate. SaskTel complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing.
Westbridge Investment	.07 SaskTel's fiscal year end is December 31. At December 31, 1990 SaskTel owned 58.9% of Westbridge, its subsidiary. .08 SaskTel recorded the value of its investment in Westbridge using the equity method of accounting. Under the equity method, SaskTel adjusts the original value of its investment by the results of operations of Westbridge. Also, under this method, the accounts of Westbridge become the accounts of SaskTel. The appointed auditor must examine all accounts of SaskTel. .09 SaskTel's appointed auditor did not directly audit the accounts of Westbridge. They worked through Westbridge's appointed auditor. .10 At December 31, 1990, SaskTel valued its investment in Westbridge at \$20.8 Million (1989 - \$30.5 Million plus related goodwill of \$5.7 Million).

.11 As at December 31, 1990, SaskTel recorded its share of the losses of Westbridge based on Westbridge's December 31, 1990 unaudited interim financial statements. Because of the size of SaskTel's investment, SaskTel's appointed auditor planned to get assurance from the auditor of Westbridge that the December 31, 1990 interim financial statements were reliable. We agree this procedure is necessary under generally accepted auditing standards to ensure SaskTel's investment in Westbridge is valued properly. This procedure was performed in previous years.

.12 Accordingly, Westbridge's auditor was hired to report on Westbridge's financial position and results of operations at December 31, 1990.

.13 On February 27, 1991, Westbridge's auditor advised SaskTel's auditor they were unable to report on Westbridge's financial position and results of operations in time to meet SaskTel's reporting deadline of February 28, 1991. Among other things, Westbridge's auditor advised they did not have enough information to verify the value of other assets such as goodwill of about \$24 Million.

.14 SaskTel's auditor decided they did not need assurance from Westbridge's auditor to verify the value of SaskTel's investment in Westbridge.

.15 SaskTel's auditor did not report a reservation of opinion regarding the value of SaskTel's investment in Westbridge.

.16 We believe assurance from Westbridge's auditor on the financial statements of Westbridge at December 31, 1990 was necessary to verify the value of SaskTel's investment in Westbridge. Without this assurance, we were unable to find enough evidence to form an opinion on the value of SaskTel's investment in Westbridge. Therefore, we report a reservation of opinion on SaskTel's 1990 financial statements.

Reservation in Our
Auditor's Report

.17 *The Provincial Auditor Act* requires us to report any reservation of opinion in an audit report. Our opinion on SaskTel's 1990 financial statements follows:

Generally accepted auditing standards require that where an investment in a subsidiary is accounted for by the equity basis of accounting, either I audit the accounts of the subsidiary or I rely on the work and report of the subsidiary's auditor. I was not able to do either. As a result, I have been unable to obtain sufficient evidence to form an opinion on the value of the corporation's investment in Westbridge recorded in the consolidated statement of financial position in the amount of \$20.8 million, or the corporation's share of Westbridge's losses recorded

in the consolidated statement of operations in the amount of \$9.7 million. Accordingly, I was not able to determine whether any adjustments might be necessary to the carrying value of the corporation's investment in Westbridge or its share of Westbridge's losses.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself with respect to the carrying value of the corporation's investment in Westbridge described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chapter 35

Saskatchewan Transportation Company

.01 The Company provides a public transportation system for the Province.

.02 The Company had revenue of \$16.2 Million in 1990 and held assets of \$16.5 Million at October 31, 1990. The financial statements for the Company are included in its annual report.

Our Audit Findings

.03 In our opinion, the Company's financial statements included in its annual report are reliable. The Company complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing except for the matters reported in paragraphs .55 to .144. The Company's rules and procedures to safeguard and control its assets were deficient.

Messages

.04 This report covers the Company's 1989 and 1990 years. It has several messages. Our main messages are: there is a need to change the way the Company is financed; the Board of Directors must control management; and the Company needs written policies and procedures. The Board's failure to control management and the lack of written policies and procedures caused most of the problems cited in this report.

.05 The Company needs to prepare written policies and procedures to govern the following activities.

- pay and personnel policies for out of scope employees
- management and employee expenses
- tendering
- management of capital construction
- expenditure approvals
- segregation of duties
- follow-up and collection of accounts receivable
- systems development

Appointed Auditors' Reports

.06 Our 1990 annual report states, at March 25, 1991, we had not received the reports we requested from the first appointed auditor of the Saskatchewan Transportation Company (STC), for

the fiscal year ended October 31, 1989.

.07 The report states the first appointed auditor would not be able to provide us the reports we requested until they read the reports of others involved in investigations of the Company.

.08 In February 1990, the Minister in Charge of STC appointed a second appointed auditor to do an investigative report on the Company. On March 20, 1990 the Government established an Inquiry into allegations relating to STC officials. On March 26, the Commissioner of the Inquiry wrote to the Minister requesting his approval for the second auditor to cooperate fully with the Commission Counsel and for their report to be tabled as part of the Inquiry. The letter also states the Commission Counsel may want to have further inquiries made or services performed by the second auditor. On March 29, 1990 the Minister agreed to this request. On September 14, 1990 a judgement of the Saskatchewan Court of Queen's Bench quashed the inquiry.

.09 Our 1990 annual report states after several months of asking, we were not successful in obtaining the report of the second auditor. The second auditor have since informed us they did not release their report to us because of legal advice received that the release of their report would interfere with the rights of certain accused persons to obtain a fair trial.

.10 In July 1991, we received the reports from the first auditor for the fiscal years ended October 31, 1989 and 1990. The first auditor audited STC's internal controls, compliance with authorities and financial statements for both years.

.11 We were unable to rely on the first auditor's reports on internal control for both years. The reports in Appendix II do not include all the internal control matters described in this chapter.

.12 We were unable to rely on the first auditor's reports on compliance with authorities for both years. The reports in Appendix II do not include all the compliance with authorities matters described in this chapter.

.13 We relied on the first auditor's reports on the financial statements of STC. However, we conducted additional audit work for the reasons explained in paragraphs .164 to .174.

.14 In July 1991, the Department of Justice requested a court hearing to determine who should have access to the second auditor's report. The judgement of September 4, 1991 allowed a copy of the report to be provided to the Provincial Auditor and recognized the requirements under our Act respecting confidentiality.

.15 On September 23, 1991 we received a draft copy of the second auditor's report. However, the second auditor informed

us they were not allowed to discuss their draft report with STC and as a result they could not complete their report. Accordingly, because the report was not complete, we could not rely on it.

.16 *The Provincial Auditor Act* requires us to conduct additional audit procedures when we cannot rely on the report of an appointed auditor.

.17 We conducted additional audit work to form opinions on STC's internal control and compliance with authorities for the 1989 and 1990 fiscal years. We also conducted additional audit work to form an opinion on STC's 1990 financial statements.

.18 The additional work done to form these opinions consisted of:

- documenting, evaluating and testing the adequacy of control systems used by management to safeguard and control public money;
- tests and other procedures to verify STC's compliance with the law; and
- tests and other procedures considered necessary to determine whether the costs of the second auditor's investigation were properly recorded in STC's financial statements.

Financial Analysis
1979 to 1990

.19 STC has suffered losses of approximately \$31 Million over the past 11 years. We prepared the following analysis to help Members of the Legislative Assembly understand and assess the causes of those losses.

.20 The information for our analysis comes from the 1979 to 1990 annual reports of STC. Figures for transportation revenue, operating expenses, administration expenses, annual profits/losses and accumulated deficits came from audited financial statements. We did not audit the other information included in this analysis.

.21 For our analysis, we converted the historical figures to 1979 constant dollars to remove the impact of inflation. We used the Canada Consumer Price Index. The term "real terms" means adjusted to remove the impact of inflation.

.22 Our analysis reveals the following information:

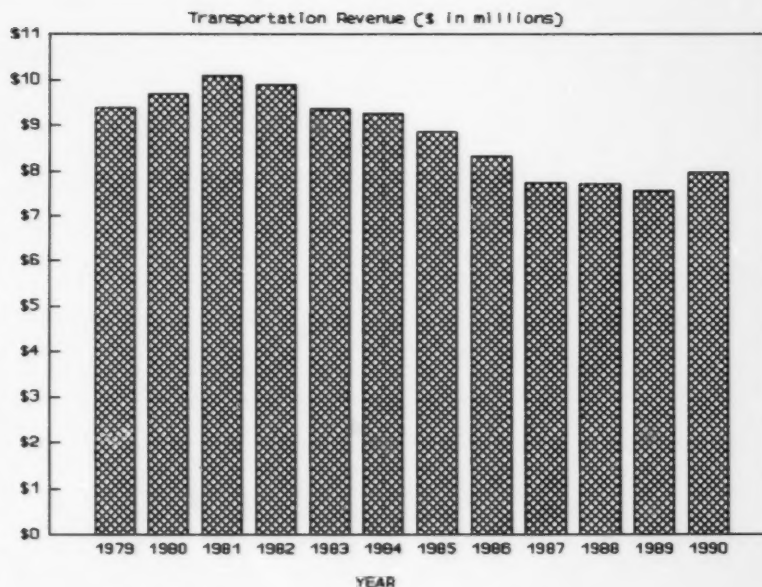
- i) In 1979, STC made a profit of \$104,000 and had retained earnings of \$1.4 Million.

- ii) For the next 11 years to 1990, STC incurred successive losses increasing from \$211,000 in 1980 to \$5.3 Million in 1990. By 1990, STC had a deficit of \$29.3 Million.
- iii) Over the 11 year period, passenger miles and passengers carried declined by 10% and 15% respectively. Transportation revenues didn't keep pace with inflation and, in real terms, the revenues in 1990 were 15% lower than 1979 (See Table 1). Over the same period, the fleet decreased in size 12% from 76 coaches in 1979 to 67 in 1990.

Table 1

Note:

These numbers come from the financial statements of STC contained in its annual reports and are adjusted for inflation using the CONSUMER PRICE INDEX of Canada and 1979 as the base year.



- iv) While revenues declined in real terms, other costs kept pace with inflation or increased. Over the same 11 year period, operating expenses and administration expenses increased, in real terms, by 3% and 52% respectively (See Tables 2 and 3). Administration costs rose by \$800,000 between 1989 and 1990 due to the increase in the provision for doubtful accounts and increased consulting fees.

Table 2

Note:

These numbers come from the financial statements of STC contained in its annual reports and are adjusted for inflation using the CONSUMER PRICE INDEX of Canada and 1979 as the base year.

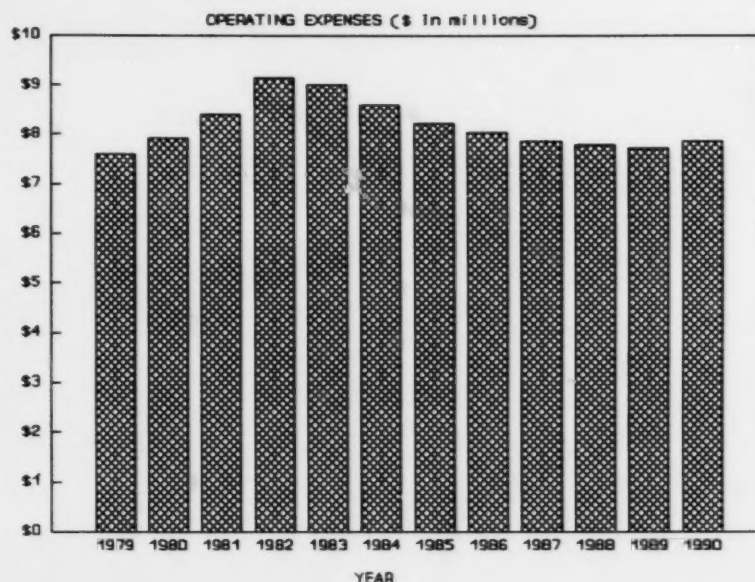
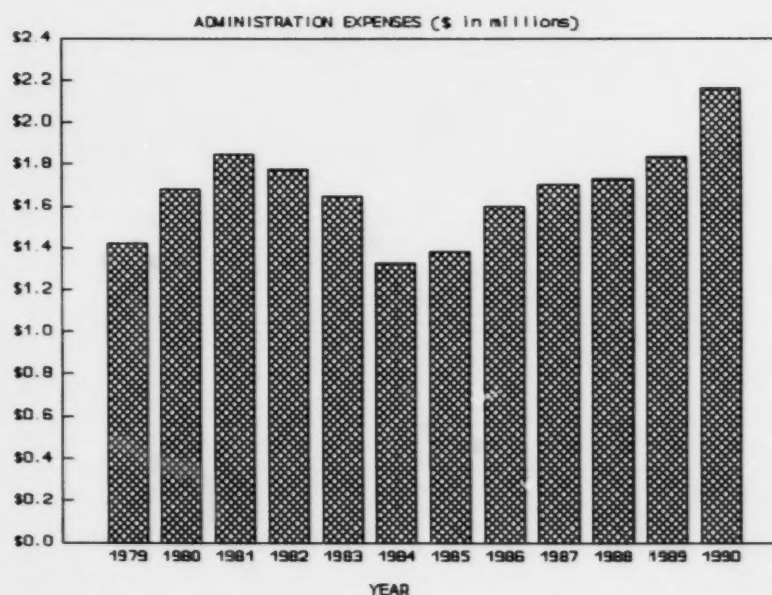


Table 3

Note:

These numbers come from the financial statements of STC contained in its annual reports and are adjusted for inflation using the CONSUMER PRICE INDEX of Canada and 1979 as the base year.

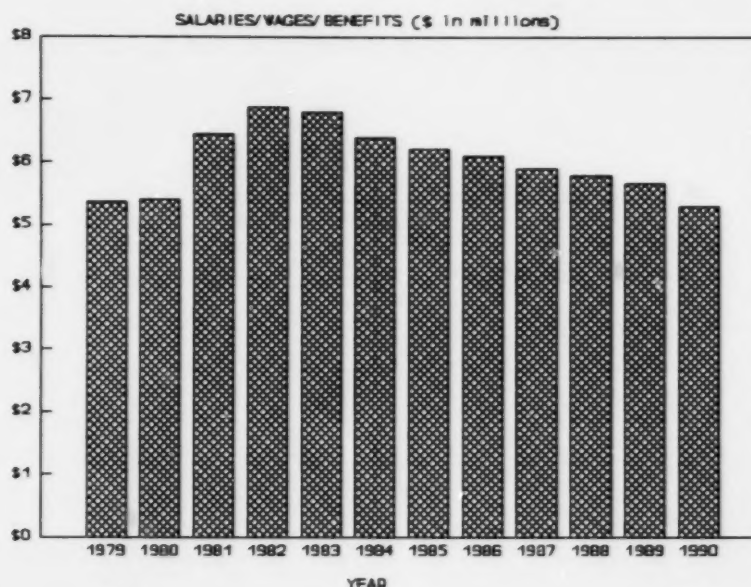


- v) In 1990 STC had 324 employees, an increase of 29 employees (10%) since 1979. In real terms, the salaries, wages and benefits for STC, decreased by 1% between 1979 and 1990 (See Table 4).

Table 4

Note:

These numbers come from the **UNAUDITED** financial highlights of STC contained in its annual reports and are adjusted for inflation using the **CONSUMER PRICE INDEX** of Canada and 1979 as the base year.



vi) As annual losses accumulated in the Company, the failure to fund the Company's deficits resulted in an increasing interest expense for STC. This interest cost increased from \$44,000 in 1979 to a high of \$1.4 Million in 1988. In 1989, the Company received a non interest bearing equity advance of \$19 Million to offset this cost. In 1990, the interest cost to STC was \$885,000.

.23 The preceding analysis shows a structural problem in the funding of STC. The Company cannot make a profit and provide the current level of service. If it is the Government's intention that STC operate at the current level of service, STC should receive an annual operating subsidy. The failure to provide an annual subsidy to STC has resulted in increasing losses and deficits. In our opinion, STC should compete annually at Treasury Board with other government programs for subsidy dollars. Once STC knows the amount of the subsidy, the level of service for uneconomical routes can be changed depending on the funding.

.24 We recommend management of STC expand on our analysis to determine precise routes that are uneconomical with present levels of service and the levels of service at which these routes become economical. This information will be needed to discuss a subsidy proposal with Treasury Board.

.25 We found the Company's rules and procedures were deficient. However, at the time of our audit, in late 1991, the

personnel and systems of STC had changed significantly from those in place during the 1989 and 1990 fiscal years. In addition, management was unable to locate much of the documentation we needed. Accordingly, there may be other matters not reported.

.26 However, we do have the following matters to report.

Board Needs to
Manage the Affairs
of the Company

.27 A good system of internal control creates an environment where errors or fraud are either less likely to occur, or if they occur, are more likely to be detected.

.28 The role played by the Board of Directors is an important element of internal control in managing the affairs and business of the Company. Through planning and overseeing business activities, a Board of Directors reduces the risk of errors or fraud.

.29 Section 6 of *The Crown Corporations Act, 1978* requires the Board to "manage the affairs and business of the corporation". The Board of Directors must discharge their duties by exercising the care, diligence and skills that reasonably prudent persons would exercise in comparable circumstances.

.30 In our opinion, the Board did not properly manage the Company. Its actions were deficient in the areas described in paragraphs .31 to .52. These deficiencies allowed the unauthorized transactions described in paragraphs .55 to .144 to go undetected.

Insufficient Board
Meetings

.31 The Board is accountable for its management of STC. Therefore, it has a duty to devote sufficient time and attention to the direction and management of STC.

.32 Order-in-Council 168/46 established STC and it continues under *The Crown Corporations Act, 1978*.

.33 The Order requires that the Board:

. . . shall meet together at least once in every month for the dispatch of the business of the corporation. . .

.34 During the fiscal year ended October 31, 1989, the Board did not hold Board meetings in eight of twelve months. In the 1990 fiscal year, the Board did not hold a meeting in July and no Board member signed the minutes for the April Board meeting.

.35 In our opinion, the Board did not hold sufficient meetings to comply with the law or to discharge its duties and responsibilities properly.

.36 We also reported this issue in our 1986 annual report.

Company Needs a
Business Plan

.37 The Board should provide clear direction for the management of STC. This direction should be contained in a formal written business plan. The plan should provide overall guidance for the management of STC and reflect the Board's view of the Company's mandate and mission. The plan, once documented, should be changed when necessary to reflect changes in the Board's view of the Company's mandate and mission. The business plan and future changes should be formally approved by the Board.

.38 The Board did not approve a business plan during the 1989 or 1990 fiscal years.

.39 At the April 1988 Board meeting, the Board discussed "the question of whether or not the Board should approve resolutions authorizing the borrowing of up to \$7 Million from the Crown Management Board". The Board resolved to "postpone any discussion on financial arrangements until we receive a business or financial plan acceptable to the Board". (See also paragraph .140).

.40 At the next meeting of the Board, ten months later, in February 1989, it agreed that management should prepare a long term business plan.

.41 Management did not present a business plan to the Board at subsequent Board meetings to the end of the 1990 fiscal year. Also, the Board minutes did not contain any requests for a follow up on this matter by the Board.

.42 In our opinion, STC should have had an approved business plan.

Company Needs a
Budget

.43 Budgetary controls are important because they authorize a whole year's transactions in terms of expected results before the fiscal year starts. The budget also provides a way of analyzing results to determine if corrective action is necessary. It allows the Board to hold management accountable for the results of the operations. In order for the budgetary process to work, the Board must approve a budget.

.44 The Board recognized its duties with respect to budgets. It approved general delegation of authority instruments that document the required level of authority for each type of transaction entered into by STC. These instruments clearly state the Board must approve operating and capital budgets.

.45 The Board did not approve operating or capital budgets for the 1989 or 1990 fiscal years.

Chapter 35 Saskatchewan Transportation Company

Board Needs to Ensure Transactions are Authorized

.46 Delegation of authority instruments, approved by the Board, were in effect for the 1989 and 1990 fiscal years. These instruments set the level of approval required for all transactions entered into by the Company.

.47 As part of the delegation of authority instruments, the Board reserved the right to approve certain items itself. These items include the following:

- operating and capital budgets
- the pay of senior management
- individual capital expenditures over \$50,000 (\$100,000 after May 1989 or \$50,000 if not covered by an approved capital budget)
- purchase orders or invoices for operating expenses not covered by approved operating budgets where the expense is over \$20,000 (\$50,000 after May 1989)
- asset disposals when selling price exceeds \$100,000 (after May 1989 when original cost exceeds \$100,000)
- approve tenders from contractors when the cost exceeds \$50,000 (\$100,000 after May 1989)

.48 The Board, however, did not follow its own delegation of authority instruments.

.49 We found many examples where the Board did not follow its own delegation of authority instruments. We provide examples later in this chapter. Management provided the Board with periodic financial reports that showed unauthorized transactions were occurring. However, the Board didn't act appropriately to authorize or end these transactions.

Policies and Procedures Needed

.50 Policies and procedures should be in place to provide guidance to all levels of management when engaged in Company business. These policies should be approved and monitored by the Board. The policies and procedures should provide for the orderly and efficient conduct of business. Without appropriate policy guidance, STC cannot carry out business in an orderly or efficient manner.

.51 We found STC's policies and procedures were deficient in the following areas:

- pay and personnel policies for out of scope employees
- management and employee expenses
- tendering
- management of capital construction
- expenditure approvals
- segregation of duties
- follow-up and collection of accounts receivable
- systems development

.52 In our opinion, the lack of appropriate policies and procedures was a significant cause of the problems described in this chapter.

**Authorization
Controls**

.53 A good system of internal control ensures the proper authorization of each transaction. It should include checks and balances that ensure appropriate authorizations accompany transactions.

.54 STC's authorization controls were inadequate in the areas described in paragraphs .55 to .144.

**Capital Expenditures
Need Approval**

Board of Directors Approval

.55 We reported in paragraph .45 the Board did not approve a capital budget for the 1989 or 1990 fiscal years.

.56 Further, the Board did not approve individual capital expenditures during the 1989 fiscal year. STC's 1989 financial statements show that it spent \$1.5 Million on capital expenditures during the year.

.57 The October 31, 1990 financial statements show that STC spent \$3.6 Million on capital expenditures during the year. The Board did not approve most of the capital expenditures for 1989 and 1990.

.58 During 1989 and 1990, the major items not approved by the Board included \$3.3 Million for the purchase of 11 coaches from Eagle Bus Manufacturing, Inc. (Eagle). The remainder was mostly for construction work at the Regina garage and bus depot. Management reported these expenditures to the Board in periodic reports. However, the Board did not act to end the expenditures

or to properly approve them.

.59 In our opinion, the Board's delegation of authority instrument required it to approve the payments made for the Eagle coaches. Several payments for construction also required Board approval.

Management Approval

.60 STC management approved a payment of \$52,000 to Mor Land Bus Inc. However, we found no invoice for this amount and no evidence that STC received goods or services for this payment. The payment was related to the Eagle Bus purchase.

.61 STC management approved many payments for construction at the Regina garage and bus depot for which there was no evidence STC received goods or services. These payments totalled approximately \$1.1 Million.

Company Needs Capital Expenditure Policies and Procedures

Policies

.62 i) Tendering of Contracts

The Company did not have a written policy stating when tenders were required, or the process to be followed when issuing tenders and when evaluating and processing tenders received. Also, there was no policy to provide guidance on terms to be included in tenders and subsequent contracts.

ii) Management of Construction Projects

For the full 1989 fiscal year and until April 1990 the Company did not have a policy to ensure the management of construction projects followed good business practice. Such a policy should include the requirement for architects/engineers certificates of completion and address the requirements of *The Builder's Lien Act*. In addition, the policy should address the insurance issues of performance bonding, property damage and public liability insurance.

Procedures

Eagle Coaches

.63 STC lacked written procedures, to be followed by management, when making a major purchase of coaches for its fleet. There was no guidance for tendering or how tenders should be evaluated. In addition, there was no guidance for management, about the matters to be considered, when entering into subsequent contracts with manufacturers.

.64 We stated in paragraph .58 that the Board did not approve the purchase of the Eagle coaches.

.65 At the May 1989 Board meeting, STC management reported to the Board that Crown Management Board (CMB) had approved a proposal to purchase eleven Eagle coaches at an estimated cost of \$263,000 each, subject to certain conditions. Instead of approving this proposal, the Board agreed management, CMB and the Minister would revise the proposals for CMB and Cabinet. In addition, the report stated CMB recommended a marketing consultant to develop a marketing plan (see paragraph .77).

.66 At the next meeting of the Board, in September 1989, management reported that Cabinet and CMB approved the purchase of eleven new Eagle 45 ft. coaches at a cost of approximately \$310,000 each totalling \$3.4 Million.

.67 On July 27, 1989 STC management entered into a contract with an agent for Eagle Bus Manufacturing, Inc. The contract was for the purchase of 11 coaches, at \$223,655 U.S. each, for a total of \$2,460,205 U.S. The price of \$223,655 U.S. was consistent with the price quotation received from Eagle in March 1989 and reported to the Board at the May 1989 meeting (see paragraph .65). According to the terms of this contract, the contract was not valid unless accepted by Eagle Bus Manufacturing, Inc.

.68 Eagle Bus Manufacturing, Inc. did not accept the contract as noted in paragraph .67. The contract was revised and accepted by Eagle. The revised contract, also dated July 27, 1989 was for 11 coaches for a total of \$2,770,225 U.S. Management was unable to provide information to explain the increase of \$310,020 U.S. in the total contract price.

.69 The final contract did not specify a required delivery date or penalties for late delivery.

.70 Management was unable to provide any written financial analysis to document the price of each coach considered by STC management and the reasons for choosing Eagle coaches over its competitors.

.71 Management was unable to provide any legal analysis on the Eagle coach purchase. Such analysis would normally include advice on the rights and obligations of each party to a contract. This analysis was important because Eagle had prepared the contract. STC needed advice on performance penalties in the event of late or otherwise faulty performance by Eagle, when title to the coaches passed to STC and insurance matters including transit and warranty. Because Eagle was a foreign supplier, STC also needed advice on the impact of local laws on the purchase.

.72 There is a lack of information available to determine management's reasons for selecting Eagle coaches, or the reasons for the price changes made in paragraph .68. In addition, we are unable to locate evidence of a review into the legal implications of the purchase.

Construction

.73 STC needs well defined procedures to carry out construction projects in an orderly and efficient manner. Management also must follow defined procedures to make them effective.

.74 Such procedures would include requirements for written contracts with contractors. The procedures should include guidance about the matters that should be considered when entering into such contracts. As a minimum, the contract should cover the contractor's responsibility regarding performance bonding, and other insurance issues, such as, property damage or public liability insurance.

.75 During 1989 and 1990 STC spent approximately \$1.5 Million for capital construction. We found the following deficiencies in STC's construction management procedures.

- i) STC did not tender much of the work carried out. We did not find any tenders for the contractors payments we selected for audit.
- ii) STC did not have written contracts for much of the work carried out. We did not find any written contracts for the contractors' payments we selected for audit.
- iii) For the invoices approved for payment, there was no evidence of anyone checking the receipt of goods or services and that the work was satisfactory. Also, the invoices approved did not contain sufficient details about how the contractor arrived at the amount invoiced.
- iv) There was no evidence that STC checked the rates charged on the contractors' invoices. However, without written contracts it is difficult to know how this could be done.
- v) There was no evidence that STC checked contractors' invoices for mathematical accuracy. Several invoices in the audit sample contained errors.
- vi) We found many instances where only one person approved invoices for payment. The examples noted totalled approximately \$480,000. The person

approving the payment also arranged the performance of the work. This is an example of inadequate segregation of duties. This deficiency allows a person to conceal errors or fraud. We discuss segregation of duties further in paragraphs .145 to .147.

- vii) STC did not comply with the provisions of *The Builder's Lien Act*. It did not retain holdbacks on progress payments made. STC also made payments without percentage of completion certificates from architects/engineers and without obtaining clearance certificates from the Workers Compensation Board and the Department of Finance regarding E & H tax. In our 1984 annual report we also reported STC's failure to comply with the law regarding holdbacks on construction payments.
- viii) We did not find any evidence STC considered or documented the responsibilities of the contractor regarding property damage insurance or public liability insurance. No evidence could be found STC required the contractor to have a performance bond in place.
- ix) We did not find any evidence STC set work completion deadlines or considered the question of performance penalties.
- x) There were examples where the Company had paid more than once for the goods/services received. For example, STC paid for the same goods and services twice totalling \$9,530. It paid for these goods and services in November and again in December 1989. STC received a cheque in late March 1990 for the overpayment. There is no evidence STC detected the overpayment prior to receiving the cheque.

Non-Capital
Expenditures Need
Approval

.76 As noted in paragraph .47, the Board must approve expenditures over \$50,000. We did not find any approvals of expenditures over \$50,000 recorded in the Board's minutes. However, during the audit, we did find many examples where expenditures exceeded \$50,000.

New Coach
Marketing Plan
Needs Authority

.77 In June 1989, STC entered into a contract for a new coach marketing plan with a management consultant. The total budget for the contract was \$386,000.

.78 This contract required the Board's approval. The STC Board reviewed the plan but did not approve it. It agreed Management and the Minister should decide what level the

Chapter 35 Saskatchewan Transportation Company

campaign should be at and review the matter with CMB.

.79 Management was unable to determine the total cost of the marketing plan to STC. However, management provided us information it had found payments of \$311,000 for the purposes of the plan.

.80 For most payments made in respect of the plan there was no evidence of a check to ensure the receipt of goods or services.

Board Needs to Approve Executive Pay

.81 Section 12 (1) of *The Crown Corporations Act, 1978* states the Board may:

...employ any officers or other employees that it considers necessary for the conduct of its operations and may determine their respective duties and powers, their conditions of employment and their remuneration...

.82 Section 12 (2) states the Board shall have control and supervision over its officers and employees.

.83 STC's delegation of authority instruments require Board approval to authorize hiring, resignations, layoffs, dismissal, demotions, retirement and promotions, (including payroll change notices) for the President of STC.

President's Salary Needs Authority

.84 During the audit, management could not locate a contract of employment for the President other than his offer of employment signed May 11, 1983.

.85 During the audit period we noted there was no Board approval for the salary paid to the President of STC. From a review of the payroll change notices it was apparent the President was approving his own salary increments.

.86 In December 1988, the President approved an increase for himself of 5% retroactive to January 1, 1988 and an increase of 8% retroactive to November 1, 1988.

.87 In April 1989, the President also received 8 weeks salary instead of vacation. There was no documented Company policy for vacation carry forwards or vacation pay outs. We did not find any evidence the Board approved this payment. Management advised us STC did not maintain attendance records for the President. The Vice President of Finance and Administration approved the payment.

.88 In our opinion, the salary payments made to the President of STC between November 1, 1988 to January 1990 were not properly authorized.

Assistant to the
President did not
Work for STC

.89 For the full 24 months of the fiscal years ended October 31, 1989 and 1990, STC paid salary to a person employed as Assistant to the President. The salary paid was \$53,000 for the 1989 fiscal year and \$57,000 for 1990.

.90 Management could not locate a contract of employment or attendance records for this person. From enquiries made of STC management and a review of this person's Personnel and Payroll files we concluded this person did not work at STC.

.91 The assistant to the President worked for the Executive Council, as Tour Director to the Premier starting in December 1987. STC paid this person from December 1987 until he resigned his position in March 1991. Management informed us Executive Council did not reimburse STC for the salary paid.

.92 In January 1989, STC increased the salary paid to this person by approximately 9%. However, no payroll change form could be found to authorize the salary paid. Effective November 1989 and in July 1990, this person received further increases of 4%. The Vice President of Finance and Administration approved the payroll change forms for these increases.

.93 According to the Board's delegation of authority instrument, the salary and payroll change form required the President's approval. In addition, the President should have approved management salaries in consultation with the Board.

.94 We did not find any evidence in the Board's minutes for 1989 and 1990 that it approved any changes in management salary schedules.

.95 In our opinion, none of the salary payments made to the Assistant to the President were bona fide payments, as there is no evidence that STC received any services for the amounts paid.

Ministerial Assistant
did not Work for STC

.96 From April 1990 to October 1990, STC paid the salary of a ministerial assistant. The salary during this period totalled approximately \$20,000. No contract of employment could be found for this person at STC.

Other Executive
Officers and Out of
Scope Management
Salaries Need
Approval

.97 During 1989 and 1990, other executive officers and management received salary increases.

.98 In May 1989, the Board changed the delegation of authority instrument to require the President, in consultation with the Board, to authorize management salary schedules. Before that date the President could approve management salary schedules.

.99 There was no evidence in the Board's minutes the Board authorized changes to management salary schedules.

.100 During 1989 and 1990, STC made payments to executive officers for unused holidays. A review of the payroll records maintained for executives showed STC did not keep proper attendance records for all executives. For one executive there were no attendance records between July 1989 and January 1990. In addition, management was unable to find contracts of employment for all executive officers. As a result, we could not verify these employees' vacation benefits and that STC had proper support for the payments.

.101 In our opinion, the salaries paid were not properly authorized and payments for unused vacation were not properly vouchered and certified.

Executive Benefits
Need Approval

.102 STC has apparently provided a wide range of other benefits to Executives of the Company. Such benefits included automobiles, RRSP payments, deferred profit sharing, football club tickets and club memberships. Management was unable to provide a complete list of benefits provided.

.103 Due to the lack of documented contracts of employment for these executives we are unable to determine the validity of such payments.

.104 In addition, we reviewed the T4's prepared for the President and other senior executives at December 31, 1989 and 1990. Management was unable to provide an analysis of how STC arrived at the amounts of the taxable benefits reported on the T4's. As a result, we were unable to determine if STC accurately reported the taxable benefits provided to the President and senior executives to Revenue Canada.

Board Needs to
Control Expenses of
Senior Executives and
Management

.105 To monitor and control the expenses of management and senior executives and to ensure such expenses are appropriate, STC needs clear policies on the nature and extent of expenses allowed. There should be well documented procedures regarding the type of expenses permitted, the limits that apply, the approvals required and the support necessary for the processing of the expense claims. Without clear policies and procedures, the practice of claiming expenses is likely to be undisciplined and could lead to abuses of privilege.

.106 STC did not have policies or procedures that clearly defined the nature and extent of expenses that could be claimed by employees of the Company.

.107 We found senior executives and certain management employees of STC had Company credit cards, telephone calling cards, automobiles and Company equipment such as cellular phones and computers.

.108 The Company did not have policies or procedures to determine who should receive such benefits or to define clearly the rules for their use by executives and management.

.109 Management informed us STC discontinued the use of Company credit cards in December 1990.

.110 In our opinion, STC should develop comprehensive policies and procedures to monitor and control the expenses claimed by management and senior executives of the Company. Such policies would include rules and procedures to define:

- i) The class of air travel permitted
- ii) Accommodation and related meal charge rates
- iii) Mileage reimbursement rates
- iv) Rules for entertainment including who should be entertained at the Company's expense and cost limits
- v) Rules for conventions to cover who attends conventions and trade fairs and how often
- vi) Policy for spousal travel on Company business

.111 We reviewed STC's payment practices for amounts owing on Company credit cards. We wanted to determine if the payments had proper supporting documents and if the charges were Company expenses. We found these practices were deficient because STC made payments without proper supporting documents. STC made payments on credit card statements. For most of the payments we examined, there was no evidence STC checked the credit card statements to credit card slips and supporting invoices. In our opinion, these payments were not properly vouchered or certified and we were unable to determine the validity of the payments.

.112 During the period under review, the President and the senior executives claimed approximately \$17,500 for restaurant meals in Regina. In the vast majority of cases there was no documentary evidence to support the business purpose of these charges.

.113 During the same period, the President and the senior executives charged approximately \$95,500 to the Company for travel expenses. Approximately 90% of the travel related to out of Province trips. In the vast majority of cases there was no documentary evidence about the business purpose of these trips. One of the items examined that had no documentary evidence about its business purpose was a charge, in September 1989, of \$2,913 from a resort hotel in Clear Lake, Manitoba. In addition, we found several payments included travel costs for family

members.

.114 Also, during the period under review, senior executives charged the Company \$10,200 for other expenses. In most cases, there was no indication about the nature and purpose of expenses claimed. However, from a review of credit card statements and credit card slips, many of the expenses claimed appear to be of a personal nature. Examples of expenses charged include tobacco products, confectionery, luggage, hockey and ski equipment, subscription and club memberships, electrical and kitchen supplies, video equipment, photo finishing, floral items, souvenirs, clothes and a camera.

President's Expense
Claims Need
Approval

.115 According to the Board's delegation of authority instruments, no official can authorize transactions that result in either, payments to himself, or reimbursements to himself for personal expenses.

.116 The Board did not control or monitor the expenses of the President of the Company. During 1989 and 1990 the Board did not approve or review the expenses of the President.

.117 On most occasions, the President approved his own expense claims. On a few occasions, a subordinate official also signed the claims.

.118 Management was unable to provide appropriate support for any expense claims made by the President. As a result, we are unable to determine the validity of these payments. In general, there is no evidence to know if the expense claims were proper Company expenses.

Expenses Paid to
the Assistant to the
President who did not
Work for STC

.119 During the audit period, the Assistant to the President charged approximately \$7,200 to the Company for expenses. Management was unable to provide any support for expense claims made by the Assistant to the President. The President approved these expense claims. However, for the claims reviewed, there is no evidence to know if the expense claims were proper Company expenses.

Senior Executives'
Expenses Need
Authority

.120 Management was unable to provide appropriate vouchers for any expense claims paid to the senior executives of the Company. The President usually approved these payments, but STC made some of these payments without any approval. In general, there was no evidence these expenses were proper expenses of the Company.

.121 One senior executive, had a contract with the Company, which provided for mileage expenses at 35 cents per kilometre of business travel. This contract provided for a minimum monthly

payment of \$600 to this executive, instead of mileage, if monthly claims do not exceed \$600.

.122 The terms of the contract required STC to pay the minimum allowance of \$600 per month until the executive paid for the automobile (estimated to be September 15, 1991). These payments were to continue, even if STC ended the executive's employment or he left STC for any reason.

.123 During 1989 and 1990, STC paid this executive \$14,705 for mileage expenses claimed during a fifteen month period.

.124 Mileage payments made under this contract were not properly supported. Therefore, we cannot determine whether the expenses claimed were proper expenses of STC. In addition to the claims for mileage, we found this executive charged STC at least \$10,693 for gasoline, oil, insurance and normal servicing and repairs for his personal vehicle. There was no provision in the contract with STC for the Company to pay costs other than mileage for this vehicle. Accordingly, in our opinion, STC should not have paid these operating costs because they are not proper STC expenses.

Management
Entertainment
Expenses

.125 STC made several payments for which management could not locate support. Also, STC made many payments that lacked evidence the expenses claimed were proper Company expenses. As part of our sample, we included seven management level employees. These employees charged the Company \$8,000 for restaurant meals incurred at their base location during the audit period. In most cases there was no documentary support for the business purpose of these expenses. Other items noted during our audit include three examples of claims totalling \$930 authorized without any explanation about the nature of the expense or even the claimants' signatures. We also found other items where STC paid expense claims without any approving signature. We found no evidence to show STC checked the accuracy of expense claims and we found arithmetical errors in the claims we audited.

Policies Needed for
Sale of Surplus
Assets

.126 STC should have written policies and procedures for the disposal of surplus assets. The policies and procedures should cover the method of disposal of assets. They should also include any requirements to receive tenders for sale of these assets, or other conditions, to be attached to any sale.

.127 The Company lacked policy or procedures to be followed regarding the disposal of surplus assets except for the approvals required in the delegation of authority instruments.

.128 On December 1, 1989 the Company disposed of three surplus GMC coaches for approximately \$15,000 in total. According to the Board's delegation of authority instrument, it

must approve the disposal of an asset when the original cost of the asset exceeds \$100,000.

.129 Management approved the sale of these coaches. The original cost of the coaches was \$233,134.

.130 STC did not advertise or tender the sale of these Coaches. Also, management could not locate expressions of interest by parties other than the purchaser.

.131 The Board later ratified the sale of the coaches on December 13, 1989.

Board Members Pay
and Expenses

.132 Section 16 of *The Interpretation Act* states in part:

16 (1) words authorizing the appointment of a public officer or functionary include the power:

(e) of fixing his remuneration and expenses and varying or terminating them;

in the discretion of the authority in whom power of appointment is vested.

.133 Section 3 of *The Crown Corporations Act, 1978* requires the Board of Directors of STC be appointed by Order-in-Council. The Orders have not specified the pay and expenses to be paid to the members of the Board.

.134 In our opinion, Section 16 of *The Interpretation Act* requires the pay and expenses paid to members of the Board to be fixed by Order-in-Council.

.135 Management informed us the total pay and expenses paid to members of the Board for the fiscal year ended October 31, 1989 was \$18,962. For the fiscal year ended October 31, 1990 members of the Board received \$28,460. In addition, STC paid a further amount of \$39,862 to the Chairman of STC for services provided at a rate of \$75 per hour (see paragraph .177).

.136 In our opinion, the payments made to the Chairman and members of the Board lack legislative authority.

Non-Compliance
with Borrowing
Authorities

.137 Section 9 of *The Crown Corporations Act, 1978* states as follows:

A corporation shall perform the duties and may exercise the powers that may be prescribed by the Lieutenant Governor-in-Council, having regard to the efficient conduct of its business.

.138 Order-in-Council 450/86 authorized STC to borrow by way of overdraft, line of credit, promissory note or other instrument from a bank or banks, amounts not exceeding in total, the principal sum of \$8,800,000.

.139 In November 1989, this Order was rescinded and replaced by Order-in-Council 933/89, which reduced the amount of borrowing from a bank to \$500,000 and allowed STC to borrow up to \$7,000,000 from CMB. In June 1990, Order-in-Council 615/90 changed the limits again. This Order raised the limit to \$9,500,000 when borrowing from CMB.

.140 We found many instances where STC exceeded its borrowing limits.

.141 For example, at November 30, 1988 the Company had borrowed \$6,326,000 from CMB for which there was no authority. In addition, at the same date, STC's combined borrowing from banks was \$11,900,000. This amount exceeded STC's borrowing authority by \$3,100,000.

.142 Also, at November 30, 1989 STC's borrowing from banks was \$4,665,000. This amount exceeded STC's borrowing limit by \$4,165,000.

.143 In our opinion, STC did not obey the law on the many occasions when it borrowed money beyond the amount authorized. Further, the frequency by which STC exceeded its borrowing limits shows that management and the Board did not adequately monitor and control the financing needs of the Company.

.144 We also reported this issue in our 1988 and 1989 annual reports.

Segregation of
Duties Needs
Improvements

.145 A good system of internal control provides for segregation of duties within the organization.

.146 Segregation of duties is inadequate when one person can conceal an error or fraud.

.147 In our opinion, segregation of duties at STC during 1989 and 1990 was inadequate in the following areas:

i) Expenditure System

Many transactions started and ended under the control of one person. As a result, this person could conceal errors or fraud.

ii) Revenue System

STC did not adequately segregate the duties of employees handling money received from agents and other customers for ticket and express sales. The same person who was responsible for receiving money was also responsible for recording receivables. This deficiency could permit this person to conceal errors or fraud.

**Company Needs
Policy and
Procedures for
Follow up and
Collection of
Accounts Receivable**

.148 STC does not have a written policy or procedures for follow up of overdue accounts receivable balances. Due to the large volume of small billings STC must follow up outstanding balances quickly. A lack of such procedures impairs successful collection of these billings and often results in writing off the billing. (See also paragraph .159).

**Systems
Development
Controls are
Required**

.149 STC should develop a controlled approach to the development and maintenance of computer systems. This is necessary to ensure computer systems achieve desired results in an effective and efficient manner.

.150 It is very important that STC has effective systems development controls for its computer systems. These controls are necessary so employees and consultants follow prescribed procedures and obtain approvals before they implement new systems or system changes. Such controls will normally ensure the efficient design of new systems. These controls also will ensure new systems provide necessary information for both internal and external users. As well, these controls provide for proper studies before starting new systems and proper conversion plans before STC changes systems.

.151 STC should establish and use the following standards to ensure the efficient and effective development of systems.

- STC needs procedures to ensure all systems developed and acquired meet established standards.
- An approved development and acquisition plan should be used to measure progress.
- All personnel involved in systems development and acquisition activities should receive adequate training and supervision.
- STC needs procedures to ensure computer systems being developed or acquired meet user requirements.
- Computer systems and programs should be adequately tested before implementation.

- There should be procedures to document and schedule all planned changes to computer systems.
- There should be procedures to ensure the approval of all changes to systems.
- There should be procedures to ensure persons can only access information and computer systems according to established policies and procedures.
- There should be backup and recovery plans to allow users of computer systems to resume operations in the event of an interruption in computer processing ability.
- Emergency, backup and recovery plans should be documented and tested regularly to ensure they remain current and operational.
- There should be procedures to ensure users review information for completeness, accuracy and consistency.

.152 In our opinion, system development controls at STC were not adequate.

.153 We found problems with the computer system at STC. The system had serious limitations in generating useful management information as well as problems in performing the accounting functions required.

.154 STC's central information system, is the Financial Information System which includes the general ledger and accounts receivable function.

.155 In 1989 and 1990 the first auditor reported to us the:

present systems do not accommodate the rendering of customer statements and follow-up of accounts receivable on a timely basis. As a result, the Company is subject to increased risk of loss from undue exposure to collectability problems.

.156 Due to changes in STC personnel and systems, we could not determine all computer systems problems that existed during 1989 and 1990.

.157 However, from enquiries of management, and a review of the documentation available to us, we found STC's computer systems had deteriorated. The Computer systems were in such a state management could not adequately monitor and control STC's accounts receivable. These problems resulted in a general lack of faith in the accuracy or usefulness of computer reports and a rise in the manual processing of transactions.

.158 During the audit period the following computer related problems existed at STC:

- i) The general ledger system was out of balance for much of the period and subsidiary ledgers could not be reconciled.
- ii) The system did not provide accurate management information on a timely basis. For example, at August 1990, the most recent financial statements of the Company were those for April 1990.
- iii) STC could not prepare customer statements in a timely manner. For example, in August 1990, the Company had not issued customer statements since April 1990.
- iv) The delays in sending customer statements contributed to problems in collection of amounts owed to the Company. The delays resulted in excessive levels of accounts receivable, higher interest costs and ultimately the write off of accounts receivable. As at October 31, 1990 customers owed STC approximately \$2 Million for express billings. This represents approximately four months in volume of credit sales relating to the express business. Also, at October 31, 1990 the aged trial balance for STC's entire accounts receivable was \$2.6 Million. This trial balance also shows only \$790,000 relates to the current months sales and \$440,000 relates to accounts more than four months old.
- v) STC did not carry out backup and recovery procedures daily.
- vi) No formal disaster recovery plan existed.
- vii) There was inadequate system documentation and no formal procedures for tracking system problems or making system changes.
- viii) There was inadequate training of STC staff in the operation of the computer systems. Only a few individuals had adequate operating knowledge of STC's computer systems. This left STC unduly exposed to personnel changes.
- ix) There was inadequate checking of computer reports and customer statements.
- x) STC did not maintain password and security administration functions.

- xi) The software vendor was bankrupt and as a result the customer support received by STC was lacking.
- xii) "Bugs" in the system resulted in inappropriate purges of information from the records.

.159 At October 31, 1989 the Company had a provision for bad debts in accounts receivable of \$60,000. This increased to approximately \$420,000 by October 31, 1990 after writing off approximately \$90,000 during the 1990 fiscal year.

.160 We noted the following points from a review of the documentation supporting accounts receivable balances written off in the period from November 1, 1989 to November 30, 1991:

- i) During purges to remove old information from the accounts receivable system, STC did not ensure it removed both the billing and the related cash received. As a result, STC removed billings but not the related cash received. When this occurred, the computer system reduced the current balance due on customer statements by the amount of cash not removed from the system. This problem resulted in STC sending statements to customers that understated the amount owing to STC.
- ii) STC's record of the amounts owing by customers, "the aged accounts receivable balances", did not agree with the statements that STC sent to customers.
- iii) We noted an example in charter revenue, where the system updated the "aged accounts receivable balance" but did not produce an invoice or customer statement.
- iv) The system can change the balance brought forward on customer statements without providing details of the change on the statement.
- v) The Company maintains an on line enquiry system it uses to determine the status of customers accounts and balances. However, the information on this system does not always agree with the information on the "aged accounts receivable balance" or the customer statement.

Revenue System
does not Ensure
All Express Revenue
is Received

.161 During 1989 and 1990, STC had about 375 agents who carried out the following transactions for the Company:

- i) ticket sales
- ii) handling of express waybills

iii) cash collection and deposit into STC's bank account

.162 STC required these agents to submit monthly revenue reports. These reports provided the following information:

i) Revenue generated by ticket sales and express waybills; and

ii) Cash collected and deposited or remitted to STC.

STC required agents to attach ticket stubs, copy express waybills, deposit slips and cheques for the amounts remitted to the Company.

.163 STC compared the monthly reports to the attached ticket stubs and express waybills to ensure agents included all ticket sales and express waybills on the monthly reports. However, STC did not have a system in place to ensure agents submitted all express waybills they handled. This weakness allowed the possibility of agents keeping cash collected for waybills not submitted to STC without detection.

Financial
Statements

.164 In February 1990, the Minister responsible for STC, hired a second auditor to do a complete investigation of the management systems and procedures at STC.

.165 We found STC did not include the costs of this investigation in the financial statements of the Company for the year ended October 31, 1990.

.166 We have also found the Department of Justice made two payments to the second auditor for services rendered during this investigation. The Department made one payment of \$384,462 in December 1990 and a further payment of \$146,439 in October 1991.

.167 Management of STC is not aware of any contract between STC and the Department that considers the question of who should bear what costs of the investigation carried out by the second auditor.

.168 As a result, we were unable to determine from information available at STC what portion of the second auditor's \$530,901 billing belongs to STC and what portion belongs to the Department.

.169 The billing of \$530,901 for the cost of the second auditor's investigation is material to STC.

.170 Because we found STC had not included the costs of this investigation in the financial statements of STC, and because there was a lack of documentation to know the portion of the second

auditor's \$530,901 billing that related to STC we conducted additional procedures to estimate the effect on the financial statements of STC for 1990.

.171 These additional procedures included discussion with representatives of the second auditor. We also reviewed the Orders-in-Council outlining the mandate of the Brownridge Commission of Inquiry and correspondence between the Commission and the Minister of STC. In addition, we reviewed information provided by the second auditor supporting their billings and obtained representations from the second auditor on the nature and extent of the work done.

.172 The second auditor provided an estimate that indicated the work done directly for the Minister in Charge of STC was between \$150,000 and \$175,000.

.173 The costs of the investigation that relate to STC should be recorded as an expense in the financial statements of STC for the year ended October 31, 1990.

.174 However, based on our additional work, we believe the impact of this error on the financial statements of STC is not material enough to impair the reliability of the financial statements. Accordingly, we consider the STC 1990 financial statements to be reliable.

Invoices from
Related Party
Paid Without
Support

.175 During the audit, we noted two invoices from CMB. Both invoices were for "expenses paid on your behalf" and were for \$148,874 and \$143,860 respectively.

.176 There was no detail provided on the invoices to know what expenses CMB paid for STC. As a result, management of STC was not aware of the nature of the expenses recorded in the accounts of STC. At the time of our audit, management thought the expenses were for the costs of the second auditor's investigation into STC. At our request, management investigated these payments. Management found that none of the expenses related to the investigation.

.177 Although management of STC did not have details of the expenses paid the invoices stated "supporting invoices are available for review for audit purposes at the offices of Crown Investments Corporation". CMB permitted the first appointed auditor of STC but not management of STC to review the support for these invoices. From our review of the first auditor's working papers, we found most of these expenses related to legal advice relating to STC executives, consulting advice regarding STC computer system problems and executive search fees conducted for STC. In addition, these invoices included the payment of \$39,862 to the chairman of STC as noted in paragraph .135.

Chapter 35 Saskatchewan Transportation Company

.178 In our opinion, it is not appropriate for management to make payments without knowing what, if any, goods and services STC received. It also does not seem appropriate for CMB to withhold such information from STC management.

Payment of Power Bill of Another Crown Agency

.179 During a review of STC's Board minutes for August 1990, we noted STC had been paying the power bills for the Saskatchewan Property Management Corporation (SPMC) Central Vehicle Agency garage, located on property next to STC's garage in Regina, for some 40 years.

.180 At the October 1990 Board meeting the Board resolved that management should negotiate an agreement on this matter with SPMC.

.181 Management informed us no written agreement has yet been reached with SPMC, but now SPMC is paying the power bill of STC Regina Service Centre garage.

.182 Management of STC estimated the SPMC power costs paid by STC in 1990 was approximately \$30,000.

.183 In our opinion, an agreement should be reached between the two parties to settle this matter so that their financial statements reflect the proper costs.

Purchase of Video Cameras

.184 In December 1989, STC purchased three video cameras for a total of \$7,479. The cheque requisition described the purchase as "video equipment for the bus fleet". STC recorded these cameras as an expense rather than an asset. The President approved the requisition. No invoice was attached to the cheque requisition.

.185 STC did not inventory the cameras at the date of purchase and there was evidence one of these cameras was not kept at STC. The camera was assigned to a senior executive and he kept it at his home.

.186 Management could not provide evidence about the business purpose of these cameras.

.187 As a result, we were unable to determine the business purpose for the cameras purchased.

Chapter 36

Saskatchewan Water Corporation

.01 The Corporation manages, develops and protects the water resources of Saskatchewan.

.02 The Corporation had revenue of \$17.7 Million in 1990 and held assets of \$178.3 Million at December 31, 1990. The Corporation's financial statements are included in its annual report.

Our Audit Findings

.03 We reported in our 1990 annual report at March 8, 1991 we had not completed our audit of the Corporation for the year ended December 31, 1989.

.04 The audits for 1989 and 1990 are now complete.

.05 In our opinion, the financial statements for the Corporation included in its annual report are reliable. The Corporation's rules and procedures to safeguard and control its assets were adequate. The Corporation complied with the authorities governing its activities as those activities relate to financial reporting, safeguarding of assets, revenue raising, spending, borrowing and investing in 1990. However, in 1989, the Corporation did not comply with the following law.

Payments Lacked Authority

.06 Section 17 of *The Water Corporation Act* requires the Corporation to obtain an Order-in-Council for grants in excess of \$100,000.

.07 In 1989, the Corporation paid three grants totalling \$987,783 under the Irrigation Based Economic Development Program. Each grant was greater than \$100,000, but the Corporation did not obtain an Order.

.08 In our opinion, these payments lacked authority.

.09 We were informed the Corporation subsequently obtained an Order for these payments.



Appendix I

Office of the Provincial Auditor

Role of the Office

.01 The Legislative Assembly and the public need assurance that the Executive Government has spent public money wisely. The Provincial Auditor's Office serves the Assembly and the public by reporting how the Government managed public money.

.02 The Government is responsible to the Assembly for its management of public money. The Government manages public money through a vast and complex structure of about 190 organizations. They include government departments, commissions, boards, health and education institutions, and crown corporations.

.03 Our Office helps the Assembly hold the Government accountable.

Mission of the Office

We serve the public through the Legislative Assembly.

We independently examine and report on the management of public resources entrusted to the government of Saskatchewan.

We encourage accountability and effective management in government operations.

.04 Our Office seeks to fulfil our mission by conducting comprehensive audits; by presenting individual audit reports to Government officials; and by presenting this annual report to the Assembly. We also help the all-party Standing Committee on Public Accounts review our report, the public accounts, and other reports.

Independence from the Government - Cornerstone of the Office

.05 As an officer of the Assembly, we are free from interference from the Government. We work for the Assembly. The all-party Board of Internal Economy approves our budget. We employ our own staff and directly buy goods and services. We have the right of access to any government information.

.06 Our independence is a safeguard to ensure we can audit and report fairly, impartially and thoroughly. We take appropriate measures to ensure our integrity and independence are preserved.

Audit Responsibilities

.07 We audit the administration of Government programs and activities carried out by government departments, commissions, boards, health and education institutions and crown corporations.

Appendix I

.08 *The Provincial Auditor Act* (Exhibit 3) sets out our responsibilities. These responsibilities do not extend to Government policy matters.

Audit Activities

.09 Our audits are comprehensive audits and have three related but distinct aspects:

- financial reporting: When we audit financial reports, we answer the question -- are the financial reports provided by the Government reliable and credible?
- compliance with the law: When we examine compliance with the law, we answer the question -- has the Government complied with the main legislative authorities governing its activities?
- value-for-money audits: When we examine management controls, we answer the questions -- how well is the Government safeguarding public assets, preparing financial reports; and, is the Government managing public funds and resources in an economical, efficient and effective manner?

.10 We use auditing standards recommended by the Canadian Institute of Chartered Accountants.

.11 We report our findings to the Assembly.

Role of Other Auditors

Internal

.12 Internal auditors of departments and crown agencies do audits for management. Generally, internal audits focus on management controls for safeguarding public assets, preparation of financial information, and the effective management of finances and resources. We avoid duplication of audit work by relying, where possible, on work done and on reports issued by internal auditors.

Public Accounting Firms

.13 Sometimes, the Government hires private sector auditors to audit crown agencies and crown-controlled corporations.

.14 In these cases, we continue to be responsible for the audit. Chapter 6 How we Audit and Report discusses how we carry out these responsibilities.

.15 Also, we hire private sector auditors to audit crown agencies. Again, we remain responsible for these audits.

Appendix I

Audit Coverage

.16 Currently, we do comprehensive audits of government departments, crown agencies and crown controlled corporations. Exhibit 4 lists all organizations that we audit. We have not completed audits of certain organizations. A list of these audits appears in Appendix III.

Limitations of an Audit

.17 Since we do not examine all transactions in an audit, our audits may not find all errors or fraud that could be reported. It is not possible to have absolute assurance because of the inherent limitations of controls over management systems and practices, the need for judgement, and the use of testing. Also, a management system that is satisfactory today, may not be so in the future.

Reporting Process

.18 We report our audit findings to the Government and to the Assembly.

Executive Government Reporting

.19 At the end of each audit, we prepare a draft report showing the results of the audit. We discuss the draft with senior officials of the audited organization to ensure its accuracy. We revise the draft if it is not accurate. We issue a final report to the Minister responsible, senior officials of the organization and if applicable, the Chairperson of the board of directors of crown agencies and crown controlled corporations. Also, we send a copy to the Chair and Secretary of Treasury Board, and the Provincial Comptroller.

Public Reporting

.20 Each year we prepare our "Annual Report". This report contains the matters which we think are of importance and of significance to the Assembly and the public. We decide the importance and significance of matters by considering several factors including: public accountability of the Government, financial significance, the Assembly's control over the Government, rule of law, and economic and social impact.

.21 This report contains the results of audits of all government organizations for their respective fiscal years ending in the period April 1, 1990 to March 31, 1991. In addition, some matters reported reflect issues that impact the government as a whole that may not have resulted from a single audit.

.22 This report focuses on public accountability of Government, reliability of financial statements, compliance with the law, and internal management control. We have not yet completed a value-for-money audit where the focus is the economical, efficient and effective management of public funds and resources. Chapter 7 Value-for-Money Audits includes the progress of these audits.

Appendix I

Management of Office Resources

.23 During the past year, we started a strategic plan to help us concentrate our resources and efforts. We identified three priorities. We plan to promote better financial reporting by government, encourage crown agencies and crown controlled corporations to be more accountable to the Assembly, and carry out broader and more in-depth audits. Each of our priorities will contribute to effective management of public finances and resources.

.24 We plan to change the structure and activities of our office to reflect these priorities.

Office Organization Structure

.25 At March 31, 1991 we had 52 people on staff.

.26 Included in the 52 are 28 professional staff. Our professional staff are members of professional accounting associations such as the Institute of Chartered Accountants of Saskatchewan, and the Society of Management Accountants of Saskatchewan.

.27 Also included are 19 students who are currently training to become professional accountants.

.28 At March 31, 1991 we had three operating groups. Each group is responsible for the audit work in departments, crown agencies and crown controlled corporations. We assign the audits of the entities to each operating group to enable staff to have a variety of work. The information systems, professional development and office management groups provide support to the staff and overall operations of the Office.

Staff training and professional development

.29 It is critical we keep our staff abreast of new developments and technology. Our staff training and professional development programs are designed to do this. We base our programs on a combination of required professional accounting programs, on-the-job training, participation in conferences and formal training courses.

.30 We regularly recruit staff from the University of Regina, University of Saskatchewan, and SIAST. We have been successful in hiring quality students. During the past year 7 students passed the examinations to become professional accountants.

Professional Practices

.31 To maintain our high standard of professional practice we have a professional practice group. This group develops and maintains our auditing policies, standards and procedures based upon auditing standards recommended by the Canadian Institute of Chartered Accountants. It also ensures we comply with office policies, standards and procedures.

Appendix I

Administration and
financial results

.32 *The Provincial Auditor Act* requires an audit of our office. Arscott and Partners, audits our office and reports to the Standing Committee on Public Accounts. (See Exhibit 2)

.33 The following is a statement showing how we spent our appropriation.

Exhibit 1

AUDITOR'S REPORT ON STATEMENT OF EXPENDITURES

To the
Office of the Provincial Auditor

We have audited the statement of expenditures of the Office of the Provincial Auditor for the year ended 31 March 1991. This financial information is the responsibility of the management of the Office of the Provincial Auditor. Our responsibility is to express an opinion on this financial information based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended 31 March 1991 in accordance with the disclosed basis of accounting.

05 July 1991
Regina, Saskatchewan

ARSCOTT & PARTNERS
Chartered Accountants

Appendix I

Exhibit 1

Office of the Provincial Auditor
Statement of Expenditures
Year Ended March 31

	<u>1991</u> (\$ 000)	<u>1990</u> (\$ 000)
Salaries and benefits	\$2,329	\$2,386
Rent	260	242
Travel	149	136
Other	<u>310</u>	<u>380</u>
	<u>\$3,048</u>	<u>\$3,144</u>

(See Accompanying Notes)

Notes to the Financial Information
For the Year Ended March 31, 1991

1. Significant Accounting Policies

A. Basis of Accounting

The accounts are maintained on a modified cash basis for a fiscal year commencing on April 1 and ending March 31. Expenditures are charged to the accounts when payment is made. In addition, payments made during the 30 days of April which are for goods and services received in the preceding fiscal year are reported as expenditures of the preceding fiscal year.

B. Classification of Financial Transactions

Expenditure includes payments for goods and services, salaries and the acquisition of fixed assets. Fixed assets are treated as an expenditure in the year of purchase.

2. Lease Commitment

On October 1, 1986, the Provincial Auditor entered into a five year lease agreement, with the provision for escalation on taxes and operating costs, for office space effective April 1, 1987. The agreement calls for annual lease payments of \$223,408.

Appendix I

Exhibit 2

To the Members of the Standing committee of the
Legislative Assembly on Public Accounts,
Province of Saskatchewan

We have made a study and evaluation of the system of internal control of the Provincial Auditor of Saskatchewan in effect as at 31 March 1991. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of the Provincial Auditor of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute assurance that:

- a) the accounts are faithfully and properly kept;
- b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of the Provincial Auditor of Saskatchewan in effect as at 31 March 1991, taken as a whole, was sufficient to meet the objectives stated above and no matters came to our attention which would require reporting under Section 12 of *The Provincial Auditor Act*.

05 July 1991
Regina, Saskatchewan

ARSCOTT & PARTNERS
Chartered Accountants

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Exhibit 3

An Act respecting the Provincial Auditor and the Auditing of Certain Accounts

SHORT TITLE AND INTERPRETATION

- 1 This Act may be cited as *The Provincial Auditor Act*.
- 2 In this Act:
 - (a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;
 - (a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;
 - (b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;
 - (c) "Crown" means Her Majesty the Queen in right of Saskatchewan;
 - (d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:
 - (i) are appointed by an Act or by the Lieutenant Governor in Council; or
 - (ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

 - (e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;
 - (f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;
 - (g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;
 - (h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:
 - (i) belong to the Government of Saskatchewan; or

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(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) Repealed.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

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(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) *The Public Service Superannuation Act* and *The Superannuation (Supplementary Provisions) Act* apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or funds established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

- (a) the accounts have been faithfully and properly kept;

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(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

(a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work he conducted; and

(c) the results of the additional audit work.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservations of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

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- (b) any public money was not duly accounted for and paid into the appropriate fund;
 - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;
 - (d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;
 - (e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;
 - (f) a special warrant authorized the payment of public money; or
 - (g) essential records were not maintained or the rules and procedures applied were not sufficient:
 - (i) to safeguard and control public money;
 - (ii) to effectively check the assessment, collection and proper allocation of public money; or
 - (iii) to ensure that expenditures were made only as authorized.
- (1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.
- (1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.
- (2) In the annual return made pursuant to subsection (1), the provincial auditor may:
- (a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and
 - (b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.
- (3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.
- 13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

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14 Notwithstanding *The Tabling of Documents Act*:

- (a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report prepared pursuant to section 12 and any special report that is prepared by him pursuant to section 13; and
- (b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

- (a) any funds that he is required to audit pursuant to subsection 11(1);
- (b) Crown agencies;
- (c) Crown-controlled corporations; and
- (d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

16(1) Where:

- (a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:
 - (i) requests the provincial auditor to perform a special assignment; and
 - (ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and
- (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

- (a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and
- (b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

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(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act,

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23 The provincial auditor shall present to the audit committee:

- (a) his annual report; and
- (b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

- (a) to free access, at all convenient times, to:
 - (i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and
 - (ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

- (b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination

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or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

25 The provincial auditor may examine any person or any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under *The Public Inquiries Act*.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

27(1) An accountant, who is:

- (a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;
- (b) not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and
- (c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

- (a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act, and
- (b) shall not communicate those matters to any person, other than when he is required to do so in connection with:
 - (i) the administration of this Act;

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- (ii) any proceedings under this Act; or
- (iii) any proceedings in a court of law.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Finance Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

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Exhibit 4

List of departments, crown agencies, crown controlled corporations, special purpose and trust funds, offices of the Legislative Assembly and other organizations subject to an audit examination under *The Provincial Auditor Act*.

Departments and Secretariats:

- Department of Agriculture and Food
- Department of Community Services (formerly Department of Urban Affairs)
- Department of Economic Diversification and Trade
- Department of Education
- Department of Energy and Mines
- Department of Environment and Public Safety
- Department of Finance
- Department of Health
- Department of Highways and Transportation
- Department of Human Resources, Labour and Employment
- Department of Justice
- Department of Parks and Renewable Resources
- Department of Rural Development
- Department of Social Services
- Department of Telephones
- Executive Council
- Family Foundation
- Indian and Metis Affairs Secretariat
- Northern Affairs Secretariat
- Provincial Secretary
- Public Service Commission
- Seniors' Secretariat
- Women's Secretariat

Crown Agencies:

- 582099 Saskatchewan Ltd.
- 586643 Saskatchewan Ltd.
- Agricultural Credit Corporation of Saskatchewan
- Agricultural Development Corporation of Saskatchewan
- Agricultural Implements Board
- Agriculture Development Fund
- Battlefords Regional Care Centre
- Board of Governors, Lakeside Home
- Board of Governors, Parkridge Centre
- CAMECO
- Carlton Trail Regional College
- CIC Industrial Interests Inc.
- CIC Mineral Interests Corporation
- CIC Pulp Ltd.
- CMB Fertilizer Inc.
- Crown Investments Corporation of Saskatchewan (CIC)
- Cumberland Regional College
- Cypress Hills Regional College
- Future Corporation, The

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Crown Agencies (continued):

Hospital Laundry Services of Regina
Investment Corporation of Saskatchewan
La Ronge Hospital Board
Law Reform Commission of Saskatchewan
Liquor Licensing Commission
Milk Control Board
Municipal Employees' Superannuation Commission
Municipal Financing Corporation of Saskatchewan
Municipal Potash Tax Sharing Administration Board
New Careers Corporation
North West Regional College
Northern Enterprise Fund Inc (formerly SaskPower Northern Enterprise Fund Inc.)
Northern Forest Operations Ltd.
Northlands Career College
Nu-Net Communications Limited
Palliser Regional Care Centre
Parkland Regional Care Centre
Parkland Regional College
Prairie Agricultural Machinery Institute
Prairie West Regional College
Provincial Mediation Board
Regina General Hospital
RT and CC Investment Corporation
Royal University Hospital
SP Two Properties Ltd.
Saferco Products Inc.
Saskatchewan Alcohol and Drug Abuse Commission
Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Auto Fund
Saskatchewan Beef Stabilization Board
Saskatchewan Cancer Foundation
Saskatchewan Canola Development Commission
Saskatchewan Centre of the Arts
Saskatchewan Communications Network Corporation
Saskatchewan Computer Utility Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Development Fund Corporation
Saskatchewan Diversification Corporation
Saskatchewan Economic Development Corporation
Saskatchewan Energy Holdings Ltd.
Saskatchewan Forest Products Corporation
Saskatchewan Gaming Commission
Saskatchewan Government Growth Fund Limited
Saskatchewan Government Growth Fund Management Corporation
Saskatchewan Government Insurance
Saskatchewan Government Printing Company
Saskatchewan Grain Car Corporation
Saskatchewan Health Research Board
Saskatchewan Horse Racing Commission
Saskatchewan Housing Corporation

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Crown Agencies (continued):

Saskatchewan Indian Regional College
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Legal Aid Commission
Saskatchewan Liquor Board
Saskatchewan Mining Development Corporation
Saskatchewan Municipal Board
Saskatchewan Pork Producers Marketing Board
Saskatchewan Power Corporation
Saskatchewan Property Management Corporation
Saskatchewan Research Council
Saskatchewan Sheep Development Board
Saskatchewan Telecommunications
Saskatchewan Telecommunications International Inc.
Saskatchewan Transportation Company
Saskatchewan Vegetable Marketing and Development Board
Saskatchewan Water Corporation
Saskatchewan Wetland Conservation Corporation
Saskatoon Health Services Authority
SaskEnergy Incorporated
SaskPen Properties Ltd.
Souris Basin Development Authority
Souris Valley Regional Care Centre
South Saskatchewan Hospital Centre, The
South Saskatchewan River Irrigation District No. 1
Southeast Regional College
St. Louis Alcoholism Rehabilitation Centre
Teachers' Superannuation Commission
TransGas Limited
Tripartite Beef Administration Board
Wascana Rehabilitation Centre
Water Appeal Board
Westank Industries Ltd.
Westbridge Computer Corporation
Western Development Museum
Workers' Compensation Board

Special Purpose and Trust Funds:

Anti-Tuberculosis League Employees Superannuation Plan
Assurance Fund
Cattle Marketing Deductions Fund
Commercial Revolving Fund
Conservation and Development Revolving Fund
Consolidated Fund
Correctional Facilities Industries Revolving Fund
Correspondence School Revolving Fund
Crop Reinsurance Fund of Saskatchewan
Crown Investments Corporation of Saskatchewan Retirement Income Fund
Department of Justice Victims' Fund
Doukhobors of Canada C.C.U.B. Trust Fund
Farm Purchase Program Fund

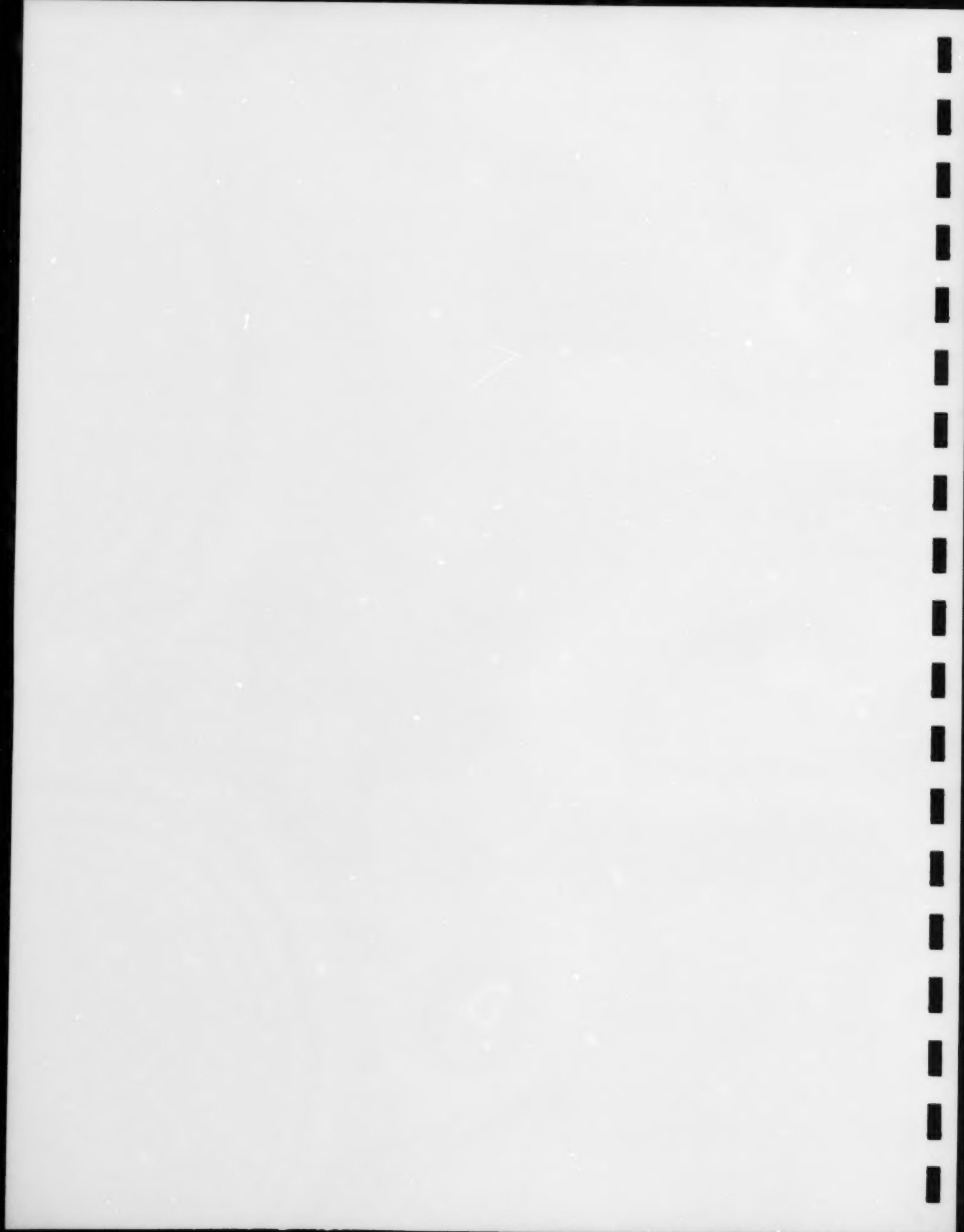
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Special Purpose and Trust Funds (continued):

Fish and Wildlife Development Fund
Forest Renewal and Development Fund
Highways Revolving Fund
Horned Cattle Fund
Judges of the Provincial Court Superannuation Plan
Members of the Legislative Assembly Superannuation Plan
Market Development Fund
Northern Revenue Sharing Trust Account
Northern Saskatchewan Economic Development Revolving Fund
Oil and Gas Environmental Fund
Power Corporation Superannuation Fund
Prepaid Funeral Services Assurance Fund
Public Employees Benefit Agency Revolving Fund
Public Employees Dental Fund
Public Employees Disability Income Fund
Public Employees Government (Contributory Annuity) Fund
Public Employees Group Life Insurance Fund
Public Employees (Government Contribution) Superannuation Plan
Public Service Superannuation Board
Queen's Printer Revolving Fund
Resource Protection and Development Revolving Fund
Saskatchewan Agricultural Research Fund
Saskatchewan Agriculture Returns Stabilization Fund
Saskatchewan Book Bureau Revolving Fund
Saskatchewan Development Fund
Saskatchewan Government Insurance Superannuation Fund
Saskatchewan Heritage Foundation
Saskatchewan Heritage Fund
Saskatchewan Liquor Board Superannuation Plan
Saskatchewan Pension Plan
Saskatchewan Prescription Drug Fund
Saskatchewan Research Council Employees' Pension Plan
Saskatchewan Student Aid Fund
Saskatchewan Telecommunications Superannuation Fund
Saskatchewan Transportation Company Employees Superannuation Plan
The Environmental Protection Fund
Workmen's Compensation Board Superannuation Fund

Other Organizations subject to examination under *The Provincial Auditor Act*:

Clinic Trust Funds
Legislative Assembly Office
Legislative Library
Ombudsman, Office of the
Provincial Auditor, Office of the
Saskatchewan Archives Board
University of Regina, The
University of Saskatchewan, The



Appendix II

Reports of Appointed Auditors - Part I

The following is a list of Crown agencies where the appointed auditors' reports indicated there was nothing of significance to report in accordance with Section 12 of *The Provincial Auditor Act*. As mentioned in Chapter 6 paragraph .20, the contents of these reports have not been reproduced because this annual report is an exception report.

We have reported earlier where we have determined that we were unable to rely on the reports of the appointed auditors.

Crown Agency

Appointed Auditor

586643 Saskatchewan Ltd. (December 1989 and 1990)	Ernst & Young
Agricultural Development Corporation of Saskatchewan	Price Waterhouse
Agriculture Development Fund	Horachek Cannam Joa
CAMECO	Peat Marwick Thorne
Carlton Trail Regional College	E.J.C. Dudley & Co.
CIC Mineral Interests Corporation	Ernst & Young
CIC Pulp Ltd.	Ernst & Young
CMB Fertilizer Inc.	Ernst & Young
Crown Investments Corporation of Saskatchewan Pension Plan	
Retirement Income Fund	Ernst & Young
Pension Fund	Ernst & Young
Cumberland Regional College	Armstrong & Neumann
Cypress Hills Regional College	Stark & Company
Municipal Financing Corporation of Saskatchewan	E.J.C. Dudley & Co.
Northern Enterprises Fund Inc. (December 1989 and 1990)	Ernst & Young
(formerly SaskPower Northern Enterprise Fund Inc.)	
Northern Forest Operations Ltd.	Price Waterhouse
NorthWest Regional College	Downie Meena Johnson
	Gress Holm & Svenkeson
Parkland Regional College	Skilnick & Partners
Power Corporation Superannuation Fund	Ernst & Young
Saferco Products Inc. (May 1989)	Ernst & Young
Saskatchewan Auto Fund	Coopers & Lybrand
Saskatchewan Communications Network Corporation	Coopers & Lybrand
Saskatchewan Development Fund	Arcscott & Partners
Saskatchewan Development Fund Corporation	Arcscott & Partners
Saskatchewan Energy Holdings Ltd.	Ernst & Young
SaskEnergy Incorporated	Ernst & Young
Saskatchewan Forest Products Corporation	Price Waterhouse
Saskatchewan Government Growth Fund Ltd. (December 1989 and 1990)	Deloitte & Touche
Saskatchewan Government Growth Fund Management Corporation (December 1989 and 1990)	Deloitte & Touche
Saskatchewan Government Insurance	Coopers & Lybrand
Saskatchewan Government Insurance Superannuation Fund	Coopers & Lybrand
Saskatchewan Government Printing Company	Mintz & Wallace
Saskatchewan Grain Car Corporation	Skilnick & Partners
Saskatchewan Housing Corporation (December 1989 and 1990)	Peat Marwick Thorne

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Crown Agency

Saskatchewan Institute of Applied Science and Technology
 Saskatchewan Mining Development Corporation
 Saskatchewan Pension Plan
 Saskatchewan Property Management Corporation
 Saskatchewan Telecommunications
 Saskatchewan Water Corporation (December 1989 and 1990)
 Saskatchewan Wetland Conservation Corporation
 (December 1990 and March 1991)
 Saskatoon Health Services Authority
 SaskPower Northern Enterprise Fund
 Southeast Regional College
 Souris Basin Development Authority
 The Agricultural Development Fund
 The Future Corporation
 TransGas Limited
 Westank Industries Ltd.
 Workers' Compensation Board

Appointed Auditor

Deloitte & Touche
 Ernst & Young
 Ernst & Young
 Deloitte & Touche
 Deloitte & Touche
 Peat Marwick Thorne

 Price Waterhouse
 Price Waterhouse
 Ernst & Young
 E.J.C. Dudley & Co.
 Matchett Potts & Seipp
 Horachek Cannam Joa
 Horachek Cannam Joa
 Ernst & Young
 Deloitte & Touche
 Peat Marwick Thorne

Reports of Appointed Auditors - Part II

Where the appointed auditors' reports indicated there were matters to be reported in accordance with Section 12 of *The Provincial Auditor Act*, the contents of these reports are reproduced in this Part.

We have reported earlier where we have determined that we were unable to rely on the reports of the appointed auditors.

The contents of the following reports are included:

	<u>Page</u>
Agricultural Credit Corporation of Saskatchewan (March, 1990 and 1991)	207
Agricultural Development Corporation of Saskatchewan (December, 1989)	209
CIC Industrial Interests Inc. (December, 1990)	210
Crown Investments Corporation of Saskatchewan (December, 1990)	211
Northlands Career College (June, 1990)	212
Prairie West Regional College (June, 1990)	214
Saskatchewan Diversification Corporation (March, 1991)	215
Saskatchewan Economic Development Corporation (December, 1990)	216
Saskatchewan Housing Corporation (December, 1989 and 1990)	218
Saskatchewan Indian Regional College (June, 1990)	220
Saskatchewan Liquor Board and Liquor Licensing Commission (March, 1991)	221
Saskatchewan Power Corporation (December, 1990)	225
Saskatchewan Transportation Company (October, 1989 and 1990)	225
Saskatchewan Water Corporation (December, 1989)	227

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AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN YEAR ENDED MARCH 31, 1990

We have made a study and evaluation of the system of internal control of Agricultural Credit Corporation of Saskatchewan in effect as at March 31, 1990. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Credit Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of the Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Credit Corporation of Saskatchewan as at March 31, 1990 which in our opinion resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation may occur and not be detected within a timely period.

Computer Environment Controls

General controls over the computer processing environment were found to be lacking in the following areas:

- i) Development, enhancement and maintenance activities are not adequately segregated from control over the production system. This situation could affect the reliability of financial information processed through the system.
- ii) Controls over changes to production applications are not formalized and documented. This could result in inaccurate or unauthorized changes to application of software affecting the reliability of financial information processed through the system. In addition, security access controls in place do not provide an audit trail of changes to production programs and data nor of changes to system security identification codes. Lack of an audit trail

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makes it difficult or impossible to identify or trace unauthorized changes to programs and security codes.

- iii) In our opinion, the Corporation's back-up procedures do not provide for retention of sufficient versions of the back-up media to allow for an efficient recovery of information in the event of a system failure. Further, the Corporation has not documented and tested a disaster recovery plan for its computerized operations. In the event of damage or destruction of the system the Corporation may find it difficult or impossible to recover in a timely and economic manner. Presently, the Corporation is continuing to enhance its back-up procedures to alleviate this concern.

Price Waterhouse
June 26, 1990

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN YEAR ENDED MARCH 31, 1991

We have made a study and evaluation of the system of internal control of Agricultural Credit Corporation of Saskatchewan in effect as at March 31, 1991. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Credit Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- (a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- (b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;
- (c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

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Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Credit Corporation of Saskatchewan as at March 31, 1991 which in our opinion resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the corporation may occur and not be detected within a timely period.

Computer environment controls

As at March 31, 1991, controls over changes to production applications and movements of modified programs into the production environment are not adequately formalized and documented. This situation could affect the reliability of financial information processed through the system. As well, the corporation has not documented and tested a disaster recovery plan for its computerized operations. In the event of a disaster, the corporation may find it difficult to recover in a timely manner.

Over the past year, the corporation has strengthened its computer environment controls. It has assumed responsibility for system maintenance and has restricted access to production files to a limited number of people. Management is planning to develop and maintain a log of all movements of new or modified programs to production next year. The corporation has also installed enhanced security software and will be working toward developing a disaster recovery plan in the near future.

Price Waterhouse
June 24, 1991

AGRICULTURAL DEVELOPMENT CORPORATION OF SASKATCHEWAN YEAR ENDED DECEMBER 31, 1989

We have made a study and evaluation of the system of internal control of Agricultural Development Corporation of Saskatchewan in effect as at December 31, 1989. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The management of Agricultural Development Corporation of Saskatchewan is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

- the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

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- essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control of future periods is subject to the risk that procedures may become inadequate of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal control of the Agricultural Development Corporation of Saskatchewan as at December 31, 1989 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Corporation may occur and not be detected within a timely period:

Documentation and Management Supervisory Controls

The Corporation did not maintain either accounting or computer procedures manuals nor a job description manual through the year. As a result, changes in staff or staff duties could lead to a breakdown in accounting control procedures including the inability of management personnel to readily determine their supervisory responsibilities.

This matter was reported in the prior year and while the corporation has substantially completed these manuals, they were not yet implemented at the year end date.

Segregation of Duties

Due to the limited staff size of the corporation, complete segregation of duties is not practical. As a consequence, some functions which would normally be segregated may be performed by the same individual. The Board of Directors were not involved in day-to-day operations of the corporation. The company did not have an adequate system to ensure the completeness of recorded revenues. Furthermore, the corporation did not have adequate alternative procedures to prevent or detect possible errors or unauthorized transactions which may occur. In this situation it is possible that an error or fraud which may be material in relation to the corporation may occur and not be detected within a timely period.

Price Waterhouse
February 26, 1990

CIC INDUSTRIAL INTERESTS INC. YEAR ENDED DECEMBER 31, 1990

We have, with regard to CIC Industrial Interests Inc. (CIC III), examined and reported without reservation to the Legislative Assembly on:

- the financial statements for the period ended December 31, 1990
- the system of internal control as at December 31, 1990

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- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the period ended December 31, 1990.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examinations, we found the following:

- (1) CIC III held shares in corporations. These shares had a total cost of \$7,910,049.
- (2) CIC III provided loans to two corporations totalling \$20,578,000 and provided a loan guarantee of \$980,000 to one of those corporations.

In the opinion of CIC III's legal counsel, these activities are within CIC III's powers and do not require to be specified in Orders in Council. Legal counsel for the Provincial Auditor has expressed a contrary view.

This is a legal issue on which differing legal views exist. In these circumstances we are unable to determine whether CIC III had appropriate legislative authority for the activities noted in (1) and (2) above.

In our opinion, except for the matters referred to in the preceding paragraphs, CIC III has complied in all significant respects with the legislative and related authorities specified.

Based on our examinations referred to in this report, there are no matters, other than those reported herein, that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of the Provincial Auditor Act.

Ernst & Young
March 13, 1991

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN YEAR ENDED DECEMBER 31, 1990

We have, with regard to Crown Management Board of Saskatchewan examined and reported without reservation to the Legislative Assembly on:

- the financial statements for year ended December 31, 1990
- the system of internal control as at December 31, 1990
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1990.

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Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examination, we found the following:

- 1) Members of Board of Directors of Crown Management Board are appointed by Order in Council as required by subsection 23(2) of the Crown Corporations Act, 1989. The Orders in Council have not specified the remuneration and expense to be paid to the members of the Board.

In the opinion of the Corporation's legal counsel, remuneration and expense is not required to be specified in Orders in Council. Legal counsel for the Provincial Auditor has expressed a contrary view.

This is a legal issue on which differing legal views exist. In these circumstances we are unable to determine whether the Corporation had appropriate legislative authority for payments made to its Board members although we understand the Corporation will seek Orders in Council to authorize future payments to members of the Board to resolve any doubt on the issue.

In our opinion, except for the matter referred to in the preceding paragraph, Crown Management Board of Saskatchewan has complied in all significant respects with the legislative and related authorities specified.

Based on our examinations referred to in this report, there are no matters other than those reported herein that we consider to be of significance and of a nature which we believe should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of the Provincial Auditor Act.

Ernst & Young
March 28, 1991

NORTHLANDS CAREER COLLEGE YEAR ENDED JUNE 30, 1990

We have made a study and evaluation of the system of internal control of the Northlands College (formerly Northlands Career College) in effect as at June 30, 1990. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

The Management of Northlands College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of the Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

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- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the systems of internal control of Northlands College as at June 30, 1990 which in our opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Northlands College may occur and not be detected within a timely period:

The program accounts receivable account is not monitored and reconciled on a monthly basis. Accounts receivable are recorded for all program expenditures as incurred, however, the receipt of monies from the funding agencies is not reconciled to the actual amounts recorded as receivable resulting in a balance in the general ledger account receivable account which is unreconciled. In preparing annual financial statements significant adjustments are required to this account. While reliable information is available for use in the preparation of the financial statements the account is not properly kept to allow for the preparation of reliable financial statements on a timely basis.

The above weakness is a result of the absence of control procedures as opposed to non-compliance with the control procedures.

The weakness stated could result in accounts receivable not being followed up in a timely manner which could result in inappropriate and incorrect information being provided to the Board of Directors for decision making.

During the current year, the administrative staff of the College were involved in work to rule action, rotating strikes and a general strike. These actions carried the loss of a significant number of working days. On April 30, 1990 the College received the resignation of the accountant which was followed by the resignation of the Director of Finance and Administration just prior to year end. Because of the disruption of the regular accounting routines of the above situations, the accounting records were not kept up-to-date.

The College bank accounts were not reconciled to the general ledger on a monthly basis. Entries to the general ledger, other than accounts payable, were not posted on a monthly basis. Payroll expenditures were not reconciled to the general ledger on a monthly basis.

The above weakness is a result of non-compliance with control procedures that the College previously had in place rather than the absence of control procedures.

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The weakness stated could result in all accounts not being followed up in a timely manner which could result in inappropriate and incorrect information being provided to the Board of Directors for decision making.

Subsequent to year end independent accountants were hired to complete the accounting function to June 30 and reconcile the various accounts.

Deloitte & Touche
December 6, 1990

PRAIRIE WEST REGIONAL COLLEGE YEAR ENDED JUNE 30, 1990

I have made a study and evaluation of the system of internal control of Prairie West Regional College in effect as at June 30, 1990. My study and evaluation was conducted in accordance with generally accepted standards and accordingly, included such tests and other procedures as I considered necessary in the circumstances.

The management of Prairie West Regional College is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor's Act, you are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

My study and evaluation disclosed the following conditions in the system of internal control of Prairie West Regional College as at June 30, 1990 which in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Prairie West Regional College may occur and not be detected within a timely period:

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(1) Revenue, Receivables and Receipts

The weakness which existed for the year ended June 30, 1989 continues to exist for the year ended June 30, 1990.

Our review of the revenue, receivables, receipts function disclosed a weakness in the system whereby this entire function is often performed by one person from cradle to grave. This situation arises because of a lack of accounting personnel. Many times, one person performs all the following functions:

- prepares invoices
- receives receipts
- records receipts
- prepares bank deposit
- makes bank deposit
- prepares adjusting entries
- posts to the general ledger
- controls receivables - receipts

In our opinion, this weakness exists due to an absence of control. Consequently, funds could remain unbilled, uncollected, undeposited or misappropriated. However, compliance and substantive testing indicated no errors. In addition, the principal of the college is involved in the receivables-receipts function to a certain extent and the accounting assistant has been delegated additional duties in order to enhance internal control.

Gilchrist & Co.
December 13, 1990

SASKATCHEWAN DIVERSIFICATION CORPORATION YEAR ENDED MARCH 31, 1991

We have, with regard to Saskatchewan Diversification Corporation (SDC), examined and reported without reservation to the Legislative Assembly on:

- the financial statements for the period ended March 31, 1991
- the system of internal control as at March 31, 1991
- compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the period ended March 31, 1991.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of our examinations, we found the following:

- (1) SDC paid \$150,000 of a \$375,000 grant to the Flax Council of Canada.

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- (2) SDC incurred expenses of \$1,559,724 for administration of the Community Bond Program.
- (3) SDC bought shares in a number of companies during the period for a total cost of \$1,095,006.
- (4) SDC provided a loan of \$55,000, assistance of \$32,000 and a loan guarantee of \$300,000 to corporations.
- (5) SDC provided a performance bond guarantee to a corporation of \$395,400.

In the opinion of SDC's legal counsel, these activities are within SDC's powers and do not require to be specified in Orders in Council. Legal counsel for the Provincial Auditor has expressed a contrary view.

This is a legal issue on which differing legal views exist. In these circumstances we are unable to determine whether SDC had appropriate legislative authority for the activities noted in (1) to (5) above.

In our opinion, except for the matters referred to in the preceding paragraph, SDC has complied in all significant respects with the legislative and related authorities specified.

Based on our examinations referred to in this report, there are no matters, other than those reported herein, that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of the Provincial Auditor Act.

Ernst & Young
May 15, 1991

SASKATCHEWAN ECONOMIC DEVELOPMENT CORPORATION YEAR ENDED DECEMBER 31, 1990

We have made a study and evaluation of the system of internal control of Saskatchewan Economic Development Corporation in effect as at December 31, 1990. Our study and evaluation was conducted in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

Management of Saskatchewan Economic Development Corporation is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial Auditor's Act, we are required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- a) the account have been faithfully and properly kept;
- b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection

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- and proper allocation of public money;
- c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority;
 - d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal control of Saskatchewan Economic Development Corporation in effect as at December 31, 1990 taken as a whole was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

Deloitte & Touche
February 20, 1991

SASKATCHEWAN ECONOMIC DEVELOPMENT CORPORATION YEAR ENDED DECEMBER 31, 1990

We have made an examination to determine whether Saskatchewan Economic Development Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1990.

The Industrial Development Act
The Industrial Development Regulations
The Financial Administration Act
Orders in Council, pursuant to the above legislation
Board of Directors' bylaws, policies and directives
The Members of the Legislative Assembly Conflict of Interests Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, Saskatchewan Economic Development Corporation has complied, except as described in the following paragraph, in all significant respects with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1990.

The Industrial Development Act requires that a government Order in Council be obtained for all financial assistance to a company that in the aggregate exceeds \$2,500,000. During the

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year, overdue interest on an account was capitalized, resulting in the total financial assistance exceeding the amount previously approved by Order in Council.

Deloitte & Touche
February 20, 1991

SASKATCHEWAN ECONOMIC DEVELOPMENT CORPORATION YEAR ENDED DECEMBER 31, 1990

We have examined the financial statements of Saskatchewan Economic Development Corporation as at December 31, 1990 and have issued our report dated January 28, 1991 thereon to the Legislative Assembly. We have examined the system of internal control as at December 31, 1990 and have issued our report dated February 20, 1991 thereon to you. We have also made an examination to determine whether Saskatchewan Economic Development Corporation complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1990 and have issued our report dated February 20, 1991 to you. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

During the course of these examinations, nothing came to our attention that would indicate to us that: 1) any officer or employee of Saskatchewan Economic Development Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; 2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and 3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

Deloitte & Touche
February 20, 1991

SASKATCHEWAN HOUSING CORPORATION YEAR ENDED DECEMBER 31, 1989

We have made an examination to determine whether Saskatchewan Housing Corporation complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1989:

The Saskatchewan Housing Corporation Act

The Financial Administration Act

The Crown Corporations Act

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The National Housing Act

The Tabling of Documents Act

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We observed that the Saskatchewan Housing Corporation had not received approval by December 31, 1989 for a loan received in 1986 from a Chartered Bank. Approval of such a loan is required from the Lieutenant Governor in Council under the Saskatchewan Housing Corporations Act and from the Minister of Finance under the Financial Administration Act. The total amount outstanding on this loan at December 31, 1989 was \$723,000.

In our opinion, except for the lack of approval as noted above, Saskatchewan Housing Corporation has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1989.

KPMG Peat Marwick Thorne
March 30, 1990

SASKATCHEWAN HOUSING CORPORATION YEAR ENDED DECEMBER 31, 1989

We have examined the financial statements of the Saskatchewan Housing Corporation for the year ended December 31, 1989 and have issued our report dated March 30, 1990 thereon to you. We have examined the system of internal control as at December 31, 1989 and issued our report to the Provincial Auditor Saskatchewan dated March 30, 1990. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of the Saskatchewan Housing Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouched or certified; and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

During the course of these examinations, nothing came to our attention that would indicate to us that: (1) any officer or employee of Saskatchewan Housing Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) there has been a deficiency or loss to the Crown through fraud, default or mistake of any person; and (3) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

KPMG Peat Marwick Thorne
March 30, 1990

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SASKATCHEWAN HOUSING CORPORATION YEAR ENDED DECEMBER 31, 1990

We have examined the financial statements of Saskatchewan Housing Corporation for the year ended December 31, 1990 and have issued our report dated March 26, 1991 thereon to you. We have examined the system of internal control as at December 31, 1990 and have issued our report to the Provincial Auditor Saskatchewan dated March 26, 1991. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Saskatchewan Housing Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouchered or certified; and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

In our opinion, the Saskatchewan Housing Corporation has complied, in all material respects, with the provisions of Section 12(1) of the Provincial Auditor's Act.

KPMG Peat Marwick Thorne
March 26, 1991

SASKATCHEWAN INDIAN REGIONAL COLLEGE YEAR ENDED JUNE 30, 1990

We have made an examination to determine whether the Saskatchewan Indian Regional College complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended June 30, 1990:

The Regional Colleges Act and Regulations
The Department of Finance Act, 1983
The Regional Colleges Accounting and Reporting Manual

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Saskatchewan Indian Regional College has not complied with the provisions of the aforementioned legislative and related authorities during the year ended June 30, 1990 in the instances noted below:

	Relevant Section
Regional Colleges Act and Regulations	
• Board members are not appointed by the Lieutenant Governor in Council.	7(1)
• There are ten members on the board instead of the prescribed four to seven. Seven of the members have been approved by the Lieutenant	7(2)

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Governor in Council and three are acting without approval.

- Budgets are not approved by the Minister prior to adoption. 15(2)
- The appointment of auditors is not approved by the Minister of Education. 17(1)
- Board members can serve for an unlimited length of time instead of the prescribed two terms. 5
- The college's line of credit has not been approved by the Minister of Education. 21(1)
- The purchase of term deposits was not approved by the Minister of Education. 23
- The purchase or long-term lease of land or buildings is not approved by the Minister of Education. 14(6)
- The disposition of real property is not approved by the Minister of Education.
- The college's personnel policy has not been approved by the Minister of Education. Reg 7(4)

Department of Finance Act, 1983

- The college's line of credit has not been approved by the Minister of Finance. 41

Regional Colleges Accounting and Reporting Manual

- The college records depreciation on its fixed assets (excluding land).

Price Waterhouse
September 7, 1990

SASKATCHEWAN LIQUOR BOARD AND LIQUOR LICENSING COMMISSION YEAR ENDED MARCH 31, 1991

The following representations are made to you in connection with our audit examination of Saskatchewan Liquor Board and Liquor Licensing Commission for the year ended March 31, 1991.

1. **Audit of the Financial Statements of Saskatchewan Liquor Board and Liquor Licensing Commission for the year ended March 31, 1991.**

Our function as auditors is to report to the Members of the Legislative Assembly on the results of our examination of the Board and Commission's combined financial statements. This requires us to state whether, in our opinion, the combined financial statements present fairly the financial position, changes in financial position and results of operations of the Board and Commission in accordance with generally accepted accounting principles applied

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on a consistent basis.

Our audit was completed on October 24, 1991 on which date we issued our Auditors' Report.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our Auditors' Report dated October 24, 1991 for the purpose of forming an opinion on the financial condition of the Government of Saskatchewan.

2. Compliance with Specified Authorities.

In accordance with Section 11(1) of The Provincial Auditor Act, we are required to determine whether, in our opinion, public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures of Saskatchewan Liquor Board and Liquor Licensing Commission have adequate statutory authority.

In order to determine whether Saskatchewan Liquor Board and Liquor Licensing Commission complied with the undernoted legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 1991 an audit program was designed and conducted by Deloitte & Touche to assess the Board and Commission's compliance with key provisions of the following legislation and regulations:

- The Alcohol Control Act
- The Alcohol Control Regulations
- The Liquor Consumption Tax Act
- The Liquor Board Superannuation Act
- The Superannuation (Supplementary Provisions) Act
- The Financial Administration Act
- The Revenue and Financial Services Act
- The Provincial Auditor Act
- The Tabling of Documents Act
- Orders in Council, Treasury Board Policies, & Other
- The Excise Tax Act
- The Excise Act & Regulations
- The Customs Act, Tariff & Other
- The Income Tax Act

Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the Board and Commission, discussions and enquiry concerning the application of the criteria of internal control in the major operating areas of the Board and Commission, evaluation and tests of internal control procedures performed as part of our audit of the combined financial statements for the year ended March 31, 1991, review of the aforementioned legislative and related authorities and such other procedures as we considered necessary in the circumstances.

In our opinion, the performance of the above procedures provides reasonable, but not absolute assurance that except for the matter outlined in the following paragraph, Saskatchewan Liquor Board and Liquor Licensing Commission complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 1991.

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As reported in prior years, the remuneration paid to the Chairman is in excess of the amount specified in Order-in-Council 371/89. A new Order-in-Council to provide authority to increase the amount specified has not been obtained, so the matter continues to be unresolved.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our report for the purpose of forming an opinion on the financial condition of the Government of Saskatchewan.

3. Study and Evaluation of the System of Internal Control.

In order to discharge the responsibility delegated to it by the Board and Commission to manage the affairs of Saskatchewan Liquor Board and Liquor Licensing Commission, management maintains a system of internal control which is intended to achieve the following objectives:

- a) the accounts have been faithfully and properly kept;
- b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority;
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

In order to satisfy ourselves that the system of internal control at Saskatchewan Liquor Board and Liquor Licensing Commission was sufficient to meet these objectives we perform the following examination.

Our examination was made in accordance with generally accepted auditing standards; it included discussion, enquiry and analysis of senior management's control systems in the major operating areas of the Board and Commission, discussion and enquiry concerning the application of the criteria of internal control in the major operating areas of the Board and Commission, evaluation and tests of internal control procedures performed as part of our audit of the combined financial statements for the year ended March 31, 1991, and such other procedures as we considered necessary in the circumstances.

In our opinion, based on the performance of the above procedures, the system of internal control of Saskatchewan Liquor Board and Liquor Licensing Commission during the year ended March 31, 1991 taken as a whole was sufficient to provide reasonable, but not absolute assurance that the objectives stated above were achieved, insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our report for the purpose of:

- a) forming an opinion on the financial condition of the Government of Saskatchewan, and

Appendix II

- b) reporting material weaknesses in internal control to the Legislative Assembly pursuant to Section 11 of The Provincial Auditor Act.

4. Other Matters pursuant to Section 12 of The Provincial Auditor Act.

In accordance with Section 12 of The Provincial Auditor Act, we are required to identify any instances we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly.

We have examined the combined financial statements of Saskatchewan Liquor Board and Liquor Licensing Commission for the year ended March 31, 1991 and have issued our report dated October 24, 1991 thereon to the Legislative Assembly. We have examined the system of internal control for the year ended March 31, 1991 and have also made an examination to determine whether Saskatchewan Liquor Board and Liquor Licensing Commission complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended March 31, 1991. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In no instances, did our study and evaluation of internal control disclose conditions indicating that internal controls were inadequate or not complied with.

During the course of these examinations, nothing came to our attention that would indicate to us that:

- a) any officer or employee of Saskatchewan Liquor Board and Liquor Licensing Commission has wilfully or negligently omitted to collect or receive public money belonging to the Crown;
- b) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and
- c) any transaction was made without probity, prudence, or in any other manner which has resulted or could result in diminished accountability to the Legislative Assembly.

We acknowledge that in your capacity as the Legislative Assembly's auditor, you will be relying on our report for the purpose of reporting other matters to the Legislative Assembly pursuant to Section 12 of The Provincial Auditor Act.

The foregoing opinions have been provided to you pursuant to your responsibilities under The Provincial Auditor's Act, and are intended for you exclusive information. We request that copies of this letter or extracts therefrom not be released to anyone who is not employed within your office without the prior consent of Deloitte & Touche.

Deloitte & Touche
February 20, 1992

Appendix II

SASKATCHEWAN POWER CORPORATION YEAR ENDED DECEMBER 31, 1990

We have, with regard to the Saskatchewan Power Corporation, examined and reported to the Legislative Assembly on:

- with reservation, as described in the following paragraph, on the financial statements for the year ended December 31, 1990;
- without reservation on the system of internal control as at December 31, 1990;
- without reservation on compliance with specified legislative and related authorities pertaining to financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1990.

Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Effective December 31, 1989, the Corporation sold its investment in a wholly-owned subsidiary to its parent and recorded an extraordinary gain amounting to \$226 million. As the investment was sold to a related party, in our opinion the gain should have been recorded as an equity advance.

Based on the examinations referred to in this report, except the inclusion in retained earnings of the gain on sale of investment as referred to in the preceding paragraph, there are no matters that we consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly pursuant to Section 12(1) subsections (a) through (g) of The Provincial Auditor Act.

Ernst & Young
February 8, 1991

SASKATCHEWAN TRANSPORTATION COMPANY YEAR ENDED OCTOBER 31, 1989

We are the appointed auditors of Saskatchewan Transportation Company ("the Company") and have reported without reservation on the Company's financial statements as at and for the year ended October 31, 1989 under date of January 12, 1990. We have also reported to the Provincial Auditor under date of February 13, 1991 on other matters to enable him to fulfil his responsibilities under paragraph 11(1) of The Provincial Auditor Act.

Pursuant to paragraph 12(1) of The Provincial Auditor Act, and as a result of our audit, we report the following:

- Annual operating and capital budgets have not been formally approved by the Board of Directors. The budgets as presented to the Board were used to monitor the Company's operations and its capital spending.

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- The Company's commercial borrowing limit established by Order in Council 450/86, was \$8,800,000. During the year ended October 31, 1989 the company exceeded the borrowing limit by \$3,010,000. Subsequently, equity advances from the Province of Saskatchewan reduced the debt of the Company below its commercial borrowing limits.
- Subsequent to the release of our auditors' report on the financial statements of the Company for the year ended October 31, 1989, legal proceedings against certain former executives and suppliers of the Company were commenced. The proceedings arise from alleged irregularities between these parties in the conduct of the Company's business. At the date of this report the legal proceedings continue and accordingly, a deficiency or loss to the Crown, if any, is not determinable.

KPMG Peat Marwick Thorne
February 13, 1991

SASKATCHEWAN TRANSPORTATION COMPANY YEAR ENDED OCTOBER 31, 1990

We are the appointed auditors of Saskatchewan Transportation Company ("the Company") and have reported without reservation on the Company's financial statements as at and for the year ended October 31, 1990 under date of February 13, 1991. We have also reported to the Provincial Auditor under date of February 13, 1991 on other matters to enable him to fulfil his responsibilities under paragraph 11(1) of The Provincial Auditor Act.

Pursuant to paragraph 12(1) of The Provincial Auditor Act, and as a result of our audit, we report the following:

- Annual operating and capital budgets have not been formally approved by the Board of Directors. The budgets as presented to the Board were used to monitor the Company's operations and its capital spending.
- The Company's authorized borrowing limits established by Orders in Council 939/89 and 615/90 limited commercial borrowing to \$500,000. During the year ended October 31, 1990 the Company exceeded the commercial borrowing limit by \$4,153,000. Subsequently, the proceeds of promissory notes issued to the Crown Management Board reduced the commercial debt of the Company. The balance of outstanding commercial borrowing as at October 31, 1990 was \$510,000.
- Subsequent to the release of our auditors' report on the financial statements of the Company for the year ended October 31, 1989, legal proceedings against certain former executives and suppliers of the Company were commenced. The proceedings arise from alleged irregularities between these parties in the conduct of the Company's business. At the date of this report the legal proceedings continue and accordingly, a deficiency or loss to the Crown, if any, is not determinable.

KPMG Peat Marwick Thorne
February 13, 1991

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SASKATCHEWAN WATER CORPORATION YEAR ENDED DECEMBER 31, 1989

We have examined the financial statements of Saskatchewan Water Corporation for the year ended December 31, 1989 and have issued our report dated March 2, 1990 thereon to you. We have examined the system of internal control as at December 31, 1989 and have issued our report to the Provincial Auditor Saskatchewan dated March 2, 1990. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating that internal controls were inadequate or not complied with, substantive tests were performed to detect any cases in which: (1) any officer or employee of Saskatchewan Water Corporation has wilfully or negligently omitted to collect or receive public money belonging to the Crown; (2) an expenditure was made for which there was no authority or which was not properly vouchered or certified, and (3) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person.

Our examination disclosed the following matter that, in our opinion, should be brought to your attention:

Approval of Grants

We observed that Lieutenant Governor in Council approval, as required by the Water Corporation Act for three grant payments in excess of \$100,000, was not obtained for economic and development capital grants under the Canada-Saskatchewan Agreement on Irrigation Based Economic Development. These three grants totalled \$987,783 during the year ended December 31, 1989.

In our opinion, except for the matters referred to above, the Saskatchewan Water Corporation has complied, in all material respects, with the provisions of Section 12(1) of the Provincial Auditor's Act.

KPMG Peat Marwick Thorne
March 2, 1990



Appendix III

Audits not completed at February 28, 1992.

The Standing Committee on Public Accounts recommended an audit of every government agency every year.

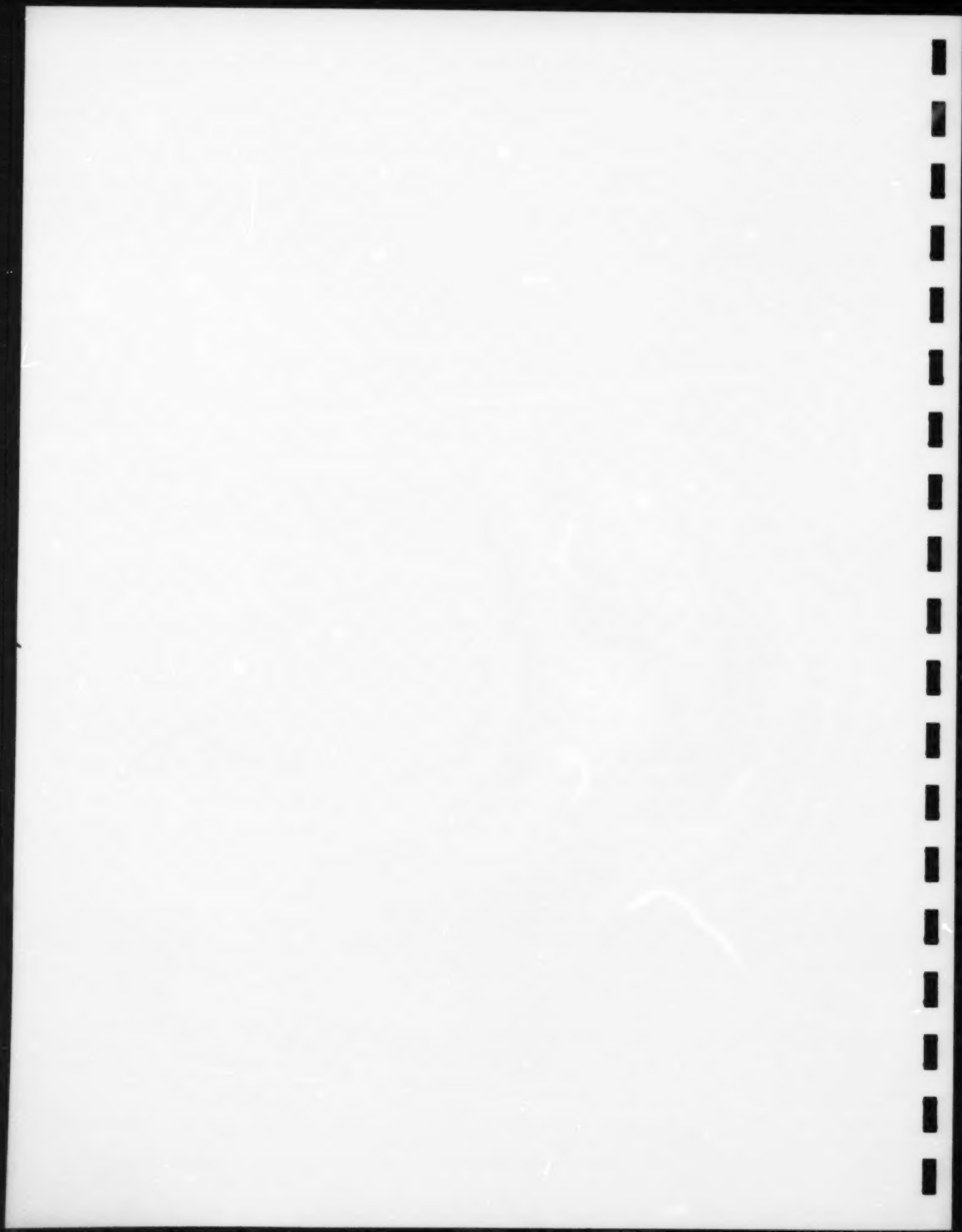
Our annual report includes all audits completed at February 28, 1992 for fiscal periods ended March 31, 1991 or earlier.

Since 1988 we have prepared our annual reports without completing all audits. We consider this practice necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

All audits not completed at February 28, 1992 will be completed and the results of those audits will be reported to the Legislative Assembly in our next annual report.

The audits not completed at February 28, 1992 are at various stages of completion. The following audits are not fully completed at February 28, 1992.

Investment Corporation of Saskatchewan 1988, 1989 and 1990
S P Two Properties Ltd.
Westbridge Computer Corporation
Western Development Museum
Workmen's Compensation Board Superannuation Fund
Saskatchewan Crop Insurance Corporation
Saskatchewan Telecommunications International Inc.
Saskatchewan Telecommunications Superannuation Fund
Nu-Net Communications Ltd.



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The Financial Management Review Commission

November 19, 1991

91/955

TO THE HONOURABLE

THE LIEUTENANT GOVERNOR IN COUNCIL:

The undersigned has the honour to report that:

1. Section 2 and subsection 5(1) of The Public Inquiries Act provides as follows:

"2 The Lieutenant Governor in Council, when he deems it expedient to cause inquiry to be made into and concerning a matter within the jurisdiction of the Legislature and connected with the good government of Saskatchewan or the conduct of the public business thereof, or that is in his opinion of sufficient public importance, may appoint one or more commissioners to make such inquiry and to report thereon."

"5(1) The commissioners, if thereunto authorized by the Lieutenant Governor in Council, may engage the services of such accountants, engineers, technical advisors or other experts, clerks, reporters and assistants as they deem necessary or advisable, and also the service of counsel to aid and assist the commissioners in the inquiry."

2. It is of sufficient public importance and is deemed expedient to cause inquiry to be made into and concerning the financial position of the Government of the Province of Saskatchewan and to appoint a commission to make such an inquiry and report thereon.

The undersigned, therefore, has the honour to recommend that your Honour's Order do issue, pursuant to section 2 and subsection 5(1) of The Public Inquiries Act:

- (1) Appointing the following persons as commissioners of a Commission of Inquiry to be known as The Financial Management Review Commission:

Don Gass, Saskatoon
Nancy Hopkins, Saskatoon
Garf Stevenson, Regina
Beth Bilson, Saskatoon

- (2) Designating Don Gass of Saskatoon as Chairman of the Commission of Inquiry.
(3) Authorizing the Commission of Inquiry to engage the services of the Provincial Auditor as a special advisor to the Commission of Inquiry.
(4) Authorizing the Commission of Inquiry to engage the services of Ken Pontikes of Saskatoon as Executive Director of the Commission of Inquiry.

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- (5) Establishing the terms of reference of the Commission of Inquiry as set out in Schedule A attached hereto.
- (6) Authorizing payment by the Department of Finance of expenses incurred in the administration of the Commission of Inquiry.
- (7) Authorizing the Commission of Inquiry to engage the services of those persons referred to in subsection 5(1) of The Public Inquiries Act as they deem necessary or advisable to assist them in the inquiry and authorizing reimbursement for expenses in connection therewith to be paid by the Department of Finance.

RECOMMENDED BY:

Roy Romanow
President of the Executive Council

APPROVED BY:

Roy Romanow
President of the Executive Council

ORDERED BY:

Sylvia Fedoruk
Lieutenant Governor
REGINA, Saskatchewan

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SCHEDULE A to O.C. 955/91

TERMS OF REFERENCE

WHEREAS the Government of Saskatchewan believes the public interest requires a review of the financial position of the Government, including its Crown corporations, boards and commissions;

AND WHEREAS the Government of Saskatchewan believes that a review of certain transactions entered into by the Government, including its Crown corporations, boards and commissions since January 1, 1983 is in the public interest;

AND WHEREAS the Government of Saskatchewan considers it expedient to cause an inquiry to be made with the objective of obtaining advice on improving financial management and the public accountability of Government, including its Crown corporations, boards and commissions:

NOW, THEREFORE, the Commission of Inquiry appointed pursuant to this Order will have responsibility to inquire into and report on:

1. The accounting principles that should be used to present the financial position and the results of operations of the Government, including its Crown corporations, boards and commissions for the year ending March 31, 1992.
2. The financial position of the Government, including its Crown corporations, boards and commissions as at October 31, 1991, or such other date as may be conveniently chosen by the Commission, using those same accounting principles as determined under (1).
3. An overview of significant transactions occurring since January 1, 1983 under which assets owned by the Government, including its Crown corporations, boards and commissions, have been sold or otherwise disposed of, and if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend.

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4. An overview of significant commitments undertaken by the Government, including its Crown corporations, boards and commissions since January 1, 1983 involving contributions or commitments, contingent or otherwise, and if, upon such inquiry, the Commission believes that further inquiry or inquiries ought to be undertaken in respect to any particular transaction or transactions to so recommend.

5. With reference to (3) and (4) above, a review of information setting out the Government's objectives when the decision to enter into a transaction or a commitment was undertaken, the criteria to be used to determine whether those objectives were or are being achieved, the effect the decision was to have on the Government's financial position and, where appropriate, performance to date.

6. Methods to improve the financial management and public accountability of Government which may include:

- a) requirements relating to the tabling of documents and the release of reports by the Government, including its Crown corporations, boards and commissions;
- b) changes to the information disclosed in the estimates and the public accounts;
- c) changes to the information disclosed in the annual reports of Government departments, Crown corporations, boards and commissions;
- d) changes which may be necessary to improve the quality and timeliness of Government financial information provided to the Legislative Assembly and the public.

7. Any other matter the Commission of Inquiry may deem necessary as a result of information coming to their attention during the course of the inquiry.

The Commission's report shall be delivered to the Minister of Finance within ninety (90) days after the date of this Order and shall, on that date, be publicly released by the Commission of Inquiry.

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November 19, 1991

91/956

TO THE HONOURABLE

THE LIEUTENANT GOVERNOR IN COUNCIL:

The undersigned has the honour to report that:

1. Subsection 16(4) of The Provincial Auditor Act provides as follows:

"16(4) Where:

- (a) the Lieutenant Governor in Council:
 - i) requests the provincial auditor to perform a special assignment; and
 - ii) causes the provincial auditor to be provided with the funding necessary to undertake the special assignment; and
 - (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;
- the provincial auditor may perform the special assignment."

2. By Your Honour's Order 955/91 dated November 19, 1991 made pursuant to The Public Inquiries Act the Financial Management Review Commission was established.

3. It is desirable and in the public interest to request the Provincial Auditor to serve as a special advisor to the Financial Management Review Commission.

The undersigned has the honour, therefore, to recommend that Your Honour's Order do issue, pursuant to subsection 16(4) of The Provincial Auditor Act:

- (1) Requesting the Provincial Auditor to serve as a special advisor to the Financial Management Review Commission.
- (2) Requesting the Provincial Auditor to provide his opinion on the accounting principles recommended by the Financial Management Review Commission.

RECOMMENDED BY:

Ed Tchorzewski
Minister Responsible for The
Provincial Auditor Act

APPROVED BY:

Roy Romanow
President of the Executive Council

ORDERED BY:

Sylvia Fedoruk
Lieutenant Governor
REGINA, Saskatchewan

Province of Saskatchewan

**SPECIAL REPORT BY
THE PROVINCIAL AUDITOR
TO THE LIEUTENANT GOVERNOR IN COUNCIL**

February 19, 1992



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February 19, 1992

The Honourable Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit my Special Report requested by your Order in Council 91/956.

Respectfully submitted,

W.K. Strelloff

W. K. Strelloff, C.A.,
Provincial Auditor

/djc

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SPECIAL REPORT BY THE PROVINCIAL AUDITOR

**To The Lieutenant Governor In Council
February 19, 1992**

Order in Council 91/956 requested the Provincial Auditor to serve as a special advisor to The Financial Management Review Commission. This Order in Council also requested the Provincial Auditor to provide his opinion on the accounting principles recommended by The Financial Management Review Commission.

Opinion on Accounting Principles

The Financial Management Review Commission recommends the accounting principles and reporting standards established by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants be used to present the financial position and results of operations of the Government for the year ended March 31, 1992.

In my opinion, the accounting principles and reporting standards recommended by The Financial Management Review Commission are appropriate.

Special Advisor

The Financial Management Review Commission engaged the Provincial Auditor as a special advisor. The Provincial Auditor attended meetings, participated in discussions and, when requested, provided various types of analyses. The Provincial Auditor assisted the Commission in developing the accounting principles recommended by the Commission for presenting the financial position and results of operations of the Government of Saskatchewan for the year ending March 31, 1992.

The Provincial Auditor advised the Commission that the accounting principles used in the preparation of the March 31, 1991 and October 31, 1991 financial statements are appropriate, except that the financial results of the Workers' Compensation Board are not included (March, 1991 - net assets \$45 million, net income \$20 million; October, 1991 - information not available).

The Provincial Auditor advised the Commission that the methods used by the Department of Finance to compile the March 31, 1991 and the October 31, 1991 financial statements are reasonable.

The Provincial Auditor was not asked to audit, review, compile or otherwise attempt to verify the March 31, 1991 and October 31, 1991 financial statements for the purposes of the Commission; nor was he asked to provide advice on the application of the accounting principles used in the preparation of those statements. Accordingly, the Provincial Auditor assumes no responsibility for the accuracy or completeness of those financial statements.

SUMMARY OF RECOMMENDATIONS

- 2 - 1: The Commission recommends that the Government of Saskatchewan should, through legislation, adopt the accounting principles and reporting standards which are established, and specified, from time to time, by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants.
- 2 - 2: The Commission recommends that the Province's main financial statements should report on the financial condition and operating results of all organizations that are owned and controlled by the Government of Saskatchewan.
- 2 - 3: The Commission recommends that the various pension plans for which the Government of Saskatchewan is responsible should be actuarially-valued regularly (at least every three years) and that unfunded liabilities associated with these pension plans should be recognized in the main financial statements as a liability.
- 2 - 4: The Commission recommends that transactions involving loans, which can only be repaid through future budgetary appropriations by the Government, should be treated as expenditures, rather than assets (i.e. loans receivable), in the Government's financial statements.
- 2 - 5: The Commission recommends that, in order to implement Recommendation 2 - 4, all existing loans of the Saskatchewan Property Management Corporation should be written off against the Province's accumulated deficit.
- 2 - 6: The Commission recommends that the Government of Saskatchewan should record all of its financial transactions by using the principles of accrual accounting.
- 2 - 7: The Commission recommends that any required valuation allowances against loans and investments should be recorded as a budgetary expenditure in the year when the write-down is necessary.
- 3 - 1: The Commission recommends that the Government of Saskatchewan should work towards the preparation, for public consideration, of mid-year interim financial statements.
- 3 - 2: The Commission recommends that provisions for loss and write-downs should be made during the 1991-92 fiscal year for the following investments:
- | | |
|---|-----------------|
| • Saskatchewan Water Corporation | \$115.0 million |
| • Saskatchewan Economic Development Corporation | \$ 14.0 million |
| • Saskatchewan Grain Car Corporation | \$ 36.0 million |
| • Saskatchewan Diversification Corporation | \$ 3.5 million |
- 3 - 3: The Commission recommends that the Province's investments in the following projects should be closely monitored to determine whether provisions should be made as at March 31, 1992:
- Meadow Lake Pulp Limited Partnership
 - Bi-Provincial Upgrader

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- NewGrade Energy Inc.
 - CAMECO Corporation
- 3 - 4: The Commission recommends that the Government of Saskatchewan should incorporate, as part of this spring's Provincial Budget, a financial plan which includes a strategy to restore the strength of the Province's balance sheet.
- 4 - 1: The Commission recommends that the Government should review its policies and procedures for tendering, leasing, and awarding of contracts by all agencies, including its Crown corporations. This review should include an opportunity for public consultation. The resulting policies and procedures should then be documented in a form against which the Government's actions on any award can be evaluated by the public for compliance.
- 4 - 2: The Commission recommends that the Government should review the mandate and role of the various agencies which are currently involved in economic development and diversification initiatives.
- 4 - 3: The Commission recommends that SEDCO's capital structure should be reviewed, with particular consideration being given to the following issues:
- All portions of its current deficit position which can be attributed to economic development and diversification initiatives should be refinanced and therefore, should no longer be SEDCO's responsibility.
 - All future public-policy initiatives within SEDCO should be valued and the cost should be financed by an appropriation from the Consolidated Fund.
 - All of SEDCO's non-performing investments should be reviewed to determine the Corporation's future responsibility for and involvement in these operations.
- 4 - 4: The Commission recommends that the Government should undertake a review of all special funds and that the continued existence of these funds, as well as the direct payment of any revenues to a fund other than the Consolidated Fund, should be justified to the Legislature.
- 4 - 5: The Commission recommends that The Provincial Auditor Act should be reviewed and, where necessary, amended to reflect the principle that the Provincial Auditor is responsible for reporting to the Legislature on all government-owned entities, but that private-sector auditors can be appointed to review the financial affairs of such entities, as long as it is clear that the use of private-sector auditors is not intended to restrict the Provincial Auditor in meeting his/her responsibilities for public accountability to the Legislature.
- 5 - 1: The Commission recommends that a separate study should be undertaken concerning whether any or all of the activities and responsibilities of the Saskatchewan Property Management Corporation should more appropriately be undertaken within government departments, instead of through a Crown corporation.

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- 5 - 2: The Commission recommends that the provisions of The Industry and Commerce Development Act concerning the approval process for loan guarantees should be repealed or, at least, be brought into conformity with the provisions which exist in The Financial Administration Act for the authorization of such guarantees.
- 5 - 3: The Commission recommends that the Government should enact legislation concerning the amount of public funds that can be committed to a project or program without the prior approval of the Legislature.
- 5 - 4: The Commission recommends that during the next session of the Legislature:
- legislation should be introduced to establish SaskEnergy as a Crown corporation (in recognition of the current Government's decision not to privatize this company), and
 - all available financial statements on the operations of SaskEnergy since December 31, 1988, should be tabled.
- 5 - 5: The Commission recommends that all lottery revenues should be transferred to the Consolidated Fund and that annual appropriations should then be approved by the Legislature for subsequent arms' length adjudication and allocation by SaskSport to sports, culture, and recreation organizations. The Commission also recommends that SaskSport should be required to table an annual report and financial statement with the Legislature and that these documents should be subject to review by the Public Accounts Committee.
- 5 - 6: The Commission recommends that the Provincial Government should formalize a process whereby there is released to the Legislature, on each significant transaction or commitment involving a government-owned or controlled agency, a document containing the following information:
- the specific business and public-policy objectives of the transaction or commitment,
 - its financial implications, including the impact on the Province's financial position and an analysis of the risks associated with the transaction,
 - the process that will be used to manage the transaction,
 - the legislative authority under which the decision was made if the Legislature did not specifically approve it in advance, and
 - the organizational structure which has been chosen for any on-going participation that the Government or its agencies will have in the transaction or commitment, as well as the process by which the public will be regularly informed about its status and performance.
- 6 - 1: The Commission recommends that the Government of Saskatchewan should prepare suitable printed information on its current organizational structure which can be provided to the general public and which is supported by an appropriate communications strategy that will assist the public to determine the departments and agencies that are responsible for specific programs.

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- 6 - 2: The Commission recommends that the information materials on the Government's organizational structure should be updated in a timely fashion whenever changes are made.
- 6 - 3: The Commission recommends that the Heritage Fund should be abolished and that all revenues and expenditures of the Province should be processed through the Consolidated Fund.
- 6 - 4: The Commission recommends:
- that the Government should develop and document a general policy on the circumstances under which Crown corporations will be allowed, in the year during which surpluses or losses are realized, to retain their surpluses or to recover their losses from future income, and
 - that the Crown Corporations Committee be charged with the responsibility of monitoring and reporting, annually, to the Legislature on the continued appropriateness and the application of this policy.
- 6 - 5: The Commission recommends that all dividends declared by Crown corporations and similar government-owned entities and all dividends which the Province receives from a joint venture in which it is a shareholder should be paid directly to the Consolidated Fund.
- 6 - 6: The Commission recommends that the operating losses of commercially-oriented Crown corporations and government-controlled agencies should be financed, on a timely basis, by appropriations from the Consolidated Fund. Losses can only be carried forward if the corporation can demonstrate to the Legislature that the potential exists, within a short period of time, to generate sufficient offsetting surpluses.
- 6 - 7: The Commission recommends that when Crown corporations and government-controlled agencies have public-policy responsibilities within their approved mandates and when these policies affect the financial performance of the entity, one of two financing strategies should be employed:
- to the extent that market conditions permit, cross-subsidization should be allowed to occur through the corporation's rate structure, and
 - the financial impact of the policy initiative should be determined and a corresponding appropriation should be made from the Consolidated Fund to the corporation.
- 6 - 8: The Commission recommends that Crown corporations and other government-owned entities should not be created without their establishment having been reported to and debated in the Legislature in a timely fashion.
- 6 - 9: The Commission recommends that statements of mandate should be prepared and tabled in the Legislature for all Crown corporations and government-owned entities. These statements should provide clear direction on the function and purpose of the corporation, on those matters which the corporation is not permitted to engage in, on the mechanisms through which the corporation will be held accountable to the Government and to the Legislature, and on the extent

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to which the Government can intervene in the corporation's operational activities. They should be reviewed on a regular basis by the Crown Corporations Committee.

- 6 - 10: The Commission recommends that all corporations in the Government's reporting entity, unless specifically exempted by their mandate, should be subject to the same public-reporting requirements, on their past year's activities, as government departments.
- 6 - 11: The Commission recommends that the Government should adopt standards (similar to what is required by securities regulations in the private sector) for the preparation of annual reports, with the primary emphasis being placed on the role that these reports can play in improving public accountability.
- 6 - 12: The Commission recommends that legislation should be introduced which categorizes government-owned entities and which specifies, for each category, the reporting requirements and financial control mechanisms which will be in place to ensure that they are accountable to the Legislature.
- 6 - 13: The Commission recommends that the Crown Management Board should be responsible for overseeing and prioritizing the allocation of funds to the government-owned entities under its jurisdiction. It should be accountable to the Legislature for all Crown corporations and investments under the Board's jurisdiction. It should also be responsible for representing the Province's investment interests, as an owner, in private corporations.
- 6 - 14: The Commission recommends that in addition to filing the consolidated financial statements of the Crown Management Board, the Legislature should also receive, on a timely basis, full and audited financial statements for each and every subsidiary.
- 6 - 15: The Commission recommends that all of the members of the Crown Management Board and the board of directors of CIC Industrial Interest Inc. should be Cabinet Ministers. The Ministers should also be directors of one or more of the Crown corporations under the Board's jurisdiction.
- 6 - 16: The Commission recommends that Cabinet Ministers should continue to be assigned to represent the Government on the boards of directors of each Crown corporation and government-owned entity, but that these Ministers should not be the chairpersons or vice-chairpersons of these boards.
- 6 - 17: The Commission recommends that individuals other than members of the Legislature should continue to be appointed to the boards of directors of Crown corporations and government-owned entities.
- 6 - 18: The Commission recommends that legislative amendments should be made to allow the Speaker to release the Public Accounts for examination by the public within 180 days after a fiscal year end, regardless of whether the Legislature is sitting at that time.
- 6 - 19: The Commission recommends that, with respect to the annual reports of government organizations, amendments should be made to The Tabling of Documents Act to require these reports to be tabled with the Speaker within

Appendix IV

ninety days of a fiscal year end and to require the Speaker to release these documents to the public when they are received, regardless of whether the Legislature is sitting at that time.

- 6 - 20: The Commission recommends that the Government should develop a comprehensive policy statement regarding the issuance of guarantees. This statement should define the maximum level of guaranteed debt that is appropriate in relation to the Government's overall financial position and should clearly enunciate the size and nature of the guarantees that can be issued without the Legislature's approval.

Appendix V

Examples of Opinions We Form on Departments, Crown Agencies and Crown-Controlled Corporations

1. Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.

I have made a study and evaluation of the system of internal control of (name of entity) in effect as at (date). I did not study and evaluate certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for this study and evaluation consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

My study and evaluation was conducted in accordance with generally accepted auditing standards, and accordingly, included such test and other procedures as I considered necessary in the circumstances.

The Management of (name of entity) is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of (name of entity) in effect as at (date), taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to (name of entity).

Or if the study and evaluation disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:

Appendix V

My study and evaluation disclosed the following conditions in the system of internal control of (name of entity) as at (date) which in my opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to (name of entity) may occur and not be detected with in a timely period.

The report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.

City

Date

Signed

2. Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue-raising, borrowing and lending activities.

I have made an examination to determine whether (name of entity) complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended (date):

(List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, (name of entity) has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended (date).

(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)

City

Date

Signed

Appendix V

3. Following is an example of the opinion we form on the financial statements prepared by management of an agency.

I have audited the balance sheet of (name of entity) as at (date) and the statements of income, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the (name of entity) management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the (name of entity) as at (date) and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City

Date

Signed